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LAO PDR ECONOMIC MONITOR



The World Bank Office, Vientiane—NOVEMBER 2008

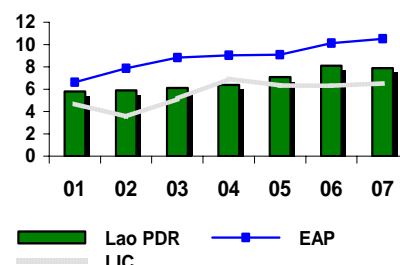
Lao PDR at a glance

Key Development Indicators

2007

| | Lao PDR | East Asia & Pacific | Low income |
|--|---------|---------------------|------------|
| Population, mid-year (millions) | 5.9 | 1,914 | 1,296 |
| GNI (Atlas method, US\$ billions) | 3.4 | 4,174 | 749 |
| GNI per capita (Atlas method, US\$) | 630 | 2,180 | 578 |
| GNI per capita (PPP, international \$) | 1,940 | 4,941 | 1,500 |
| GDP growth (%) | 7.9 | 10.5 | 6.5 |
| GDP per capita growth (%) | 6.0 | 9.6 | 4.3 |

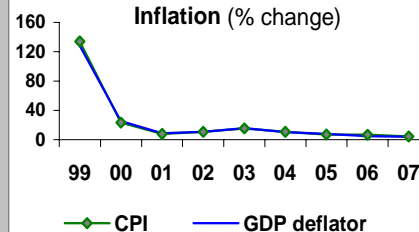
GDP growth (%)



Local Prices

| | 2005 | 2006 | 2007 |
|--|--------|--------|-------|
| Consumer prices (annual % change) | 10.5 | 6.8 | 4.5 |
| Implicit GDP deflator | 8.0 | 4.7 | 4.1 |
| Exchange rate (period average, kip per 1 US\$) | 10,636 | 10,061 | 9,622 |

Inflation (% change)



Structure of the Economy

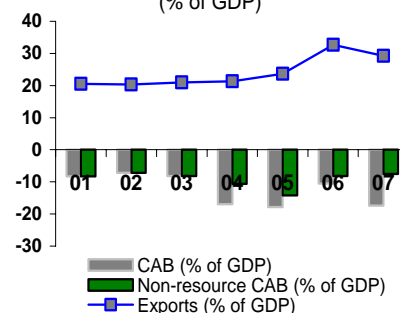
| | 2005 | 2006 | 2007 |
|------------------------|-------|-------|-------|
| GDP (US\$ millions) | 2,887 | 3,455 | 4,053 |
| Agriculture (% of GDP) | 44.3 | 42.0 | 40.3 |
| Industry (% of GDP) | 30.0 | 32.5 | 34.1 |
| Services (% of GDP) | 25.7 | 25.5 | 25.6 |

Balance of Payments and Trade

(US\$ millions)

| | | | |
|---|-------|-------|-------|
| Exports of goods (fob) | 648 | 1,029 | 1,053 |
| Imports of goods (cif) | 1,059 | 1,397 | 1,969 |
| Exports of goods and services | 870 | 1,269 | 1,327 |
| Imports of goods and services | 1,120 | 1,466 | 2,046 |
| Net trade in goods and services | -250 | -197 | -719 |
| Current account balance (% of GDP) | -11.7 | -8.8 | -19.1 |
| Non-resource current account (% of GDP) | -9.7 | -7.1 | -8.3 |
| Reserves, including gold | 238 | 335 | 539 |

Current account balance and trade (% of GDP)

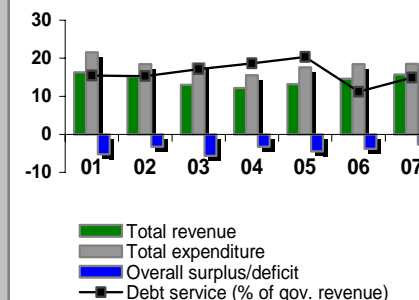


Government Finance (FY)

(% of GDP)

| | | | |
|----------------------------------|------|------|------|
| Total revenue (including grants) | 13.2 | 14.6 | 15.7 |
| Revenue | 11.5 | 12.5 | 14.0 |
| Tax revenue | 9.5 | 10.7 | 12.3 |
| Current expenditure | 8.5 | 9.2 | 9.2 |
| Overall surplus/deficit | -4.5 | -3.8 | -2.7 |

Fiscal performance (% of GDP)



External Debt and Resource Flows

| | | | |
|--|------|------|------|
| Total debt (% of GDP) | 76.9 | 66.0 | 59.5 |
| Total debt service (% of exports) | 7.2 | 3.5 | 5.1 |
| Gross foreign investment (US\$ millions) | 314 | 457 | 788 |

Source: Lao authorities, World Development Indicators, IMF (Article IV 2008) and staff estimates.

Summary

The Lao PDR economy continues to grow, but at a relatively slower pace as the impacts of the global financial turmoil are starting to be felt.

Real GDP growth is expected to slow in 2008 to about 7 percent as result of the impacts of the global financial crisis. GDP growth is also projected to slow to between 5 and 6 percent in 2009. However, growth remains fairly strong and still driven by the ongoing hydropower projects as well as agro-processing industries, construction and other services. The resource sector contributes over 2 percent and non-resource sectors another 5 percent to the growth rate in 2008. In addition to domestic consumption, medium-term growth will be sensitive to changes in global commodity prices (mainly metals and agriculture) as well as to demand and investment from neighboring countries (especially Thailand, China and Vietnam).

The macroeconomic situation continues to be relatively stable, with inflation back at one digit level. After peaking at 10.3 percent in May 2008, the year-on-year inflation rate dropped precipitously to 6.5 percent in October 2008, due to sharp decline in oil and food prices. Lower fuel prices brought down the cost of transportation, construction materials and other products, leading to further decline in core inflation. The *kip* nominal exchange rates remained strong and appreciated by about 2 percent against the US dollar, and by 11 percent against the Thai baht between May and October 2008.

Revenue policy and administration reforms, as well as sizable resource revenues, have resulted in strong revenue performance and in achieving the deficit target. Based on preliminary estimates, revenue collection has slightly exceeded its targets in FY2007/08 for a third year in a row. Revenue collection (excluding grants) has risen from 14 percent of GDP in FY2006/07 to about 14.9 percent of GDP in FY2007/08. Strong revenue performance has helped maintain the fiscal deficit at below 3 percent during the last two fiscal years. Resource revenues have increased from 2.3 percent of GDP in FY2006/07 to about 3.0

percent of GDP in FY2007/08. The GOL's recurrent spending for key priority sectors, especially education and health has also risen while capital expenditure declined. External public debt declined to 60 percent of GDP, but remains elevated. The external public and publicly guaranteed debt (in Net Present Value terms) as a percentage of GDP also remains high but has been declining from 46 percent in 2007 to about 38 percent by end-2008.



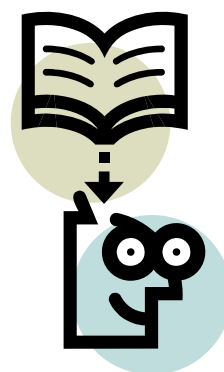
The overall external balance was in surplus as capital inflows continued to balance the large current account deficit (of above 15 percent of GDP). The non-resource current account balanced with deficit of less than 10 percent of GDP. Although global commodity prices have been falling fast in the recent months, Lao exports overall are still expected to be higher this year than in 2007 by about 20 percent (in nominal terms), driven largely by mining and other non-resource sectors. Imports are also expected to grow at a similar pace due to high prices of fuel and other investment imports in the first three quarters of the year. Gross international reserves increased from US\$539 million at end-2007 to about US\$660 million (or equivalent to 5 months of non-resource imports) by August 2008, due to increased private and official inflows, but this growth is expected to slow down due to the financial crisis repercussions. At the same time, broad money (M2)¹ grew by 24 percent by August 2008 compared to August 2007 and banking sector credit increased by 71 percent during the same period. This rapid credit growth poses a severe risk of new NPLs and liquidity problems, especially for LDB and APB.

¹ M2 is the total amount of money available in an economy at a particular point in time. It includes physical currency in circulation, demand deposits, time deposits, savings deposits, and non-institutional money-market funds.

Moving forward, the economy is facing a number of challenges in dealing with the impacts of the global financial crisis. These feed through a projected decline in foreign direct investment, commodity prices, potential private sector credit constraints, and declining exports. The projected reduction in fiscal revenues (from reduced resource revenues, import taxes and other export revenues) will limit Government's ability to conduct fiscal policy, at the time when a fiscal stimulus may be most needed.



The crisis gives more urgency to several areas of ongoing structural reforms, aimed at increasing revenues and at improving the investment climate. Public Financial Management reforms continued with implementation of the new Budget Law and piloting of centralization of the Treasury, Customs and Tax in three provinces; a new revenue sharing and distribution framework has been designed and ministries and provinces are required to apply the approved COA for the formulation of their budget plans from FY2008/09. Trade facilitation and investment climate reforms accelerated, but challenges remain. The draft Trade Facilitation Master Plan is expected to be finalized in early 2009. Two other regulations related to import and import licensing procedures are also being prepared. Implementation of the Enterprise Law has taken a step forward with the launching of a new enterprise registration system; however, expansion of the new system to provinces remains a big challenge. Drafting of a new Mining Law and combined Investment Law and other decrees has been progressing. Both Mining and Investment Laws are expected to be submitted to the National Assembly for approval in December 2008. The first National SME Development Strategy was approved in September 2008. A new Regulation on Microfinance covering all deposit and non deposit taking microfinance institutions (MFIs) as well as savings and credit unions was issued by BOL on June 20, 2008. Drafting of the implementing Decree and regulations for the Banking Law and Secured Transaction Law is ongoing.



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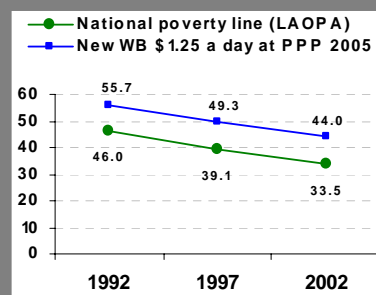
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1 RECENT ECONOMIC DEVELOPMENTS

With an estimated per capita income of about US\$630 in 2007, the Lao People's Democratic Republic (Lao PDR) is one of the poorest countries in East Asia. The Government introduced the "New Economic Mechanism" (NEM) in 1986 and began the transition from a centrally planned to a market-oriented economy. In the 1990s and early 2000s, Lao PDR's economy grew at an annual average rate of 6.3 percent and there was a significant decline in poverty: the incidence of poverty fell from 45 percent 1992/93 to 39 percent of the population in 1997/98 and to 33 percent in 2002/03 using Lao PDR national poverty line; or from 59 percent in 1992/93 to 49 percent in 1997/98 and to 44 percent in 2002/03 based on WB new \$1.25 a day 2005 purchasing power parity (PPP) terms.



During the Asian economic crisis (1998-1999) inflation climbed to an annual average of 110 percent and growth fell to 4 percent. Resolution of the crisis and Lao PDR's macroeconomic policies helped stabilize the economy and growth resumed at around 6 percent in the early 2000s. The adoption of a stabilization program since 2000 and implementation of several reform programs since 2001 – in public expenditure management, banking, state owned enterprises (SOEs), forestry, trade and the private sector – contributed to this improvement. During 2003-07, inflation declined from 15.5 percent to 4.5 percent and real GDP growth accelerated from 6.1 percent to 7.9 percent or on average 7.1 percent per annum.

The large inflows of foreign direct investment (FDI) in the hydropower and mining sectors have significantly contributed to growth in recent years. However, increasing reliance on natural resources means that growth will become increasingly sensitive to the volatility of commodity prices and could impede development of other sectors. These risks will need to be prudently managed in future. Non-resource sectors (agriculture, manufacturing and services) have also contributed to overall growth and FDI in these sectors has also increased significantly in the last a few years.

Notwithstanding recent price shocks and global financial crisis, Lao PDR's macroeconomic performance continued to be relatively healthy as the Government managed to bring the overall inflation rate back to one digit level.

The country is expected to have strong economic growth in 2008 although slightly lower than originally projected due to the financial crisis and falling demand and commodity prices (especially metal and agriculture). Real GDP growth is expected to slow to around 7 percent in 2008. Growth is being driven by already completed investments and expansion of outputs in resource industries as well as by newly established food and other agricultural processing industries and plantations, construction and other services. Overall inflation has been declining precipitously since mid-2008 (from 10.3 percent in May 2008 to 6.5 percent in October) following a drop in global oil and other commodity prices. The overall external balance remained strong (with a surplus of about 4.8 percent of GDP in 2007 and a similar

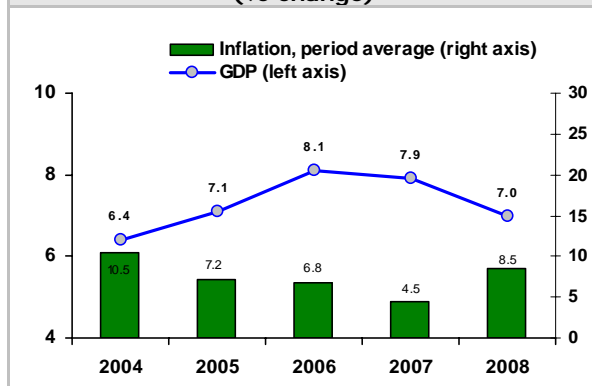
size expected in 2008) while the non-resource current account deficit stayed at one digit level. The monetary sector has been growing fast in recent months (broad money grew by 9 percent by August 2008 compared to Dec 2007 and lending increased by about 46 percent). The government's fiscal position continued to improve: FY 2007/08 revenue targets have been fully achieved; external public debt burden indicators have improved, but debt stocks remain elevated at around 60% of GDP in 2007.



Growth

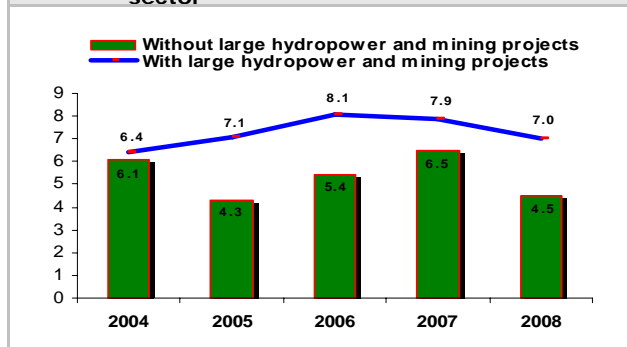
Real GDP growth remained strong but slowed to about 7 percent in 2008 (see Figure 1). The Natural resource sector (mining and hydropower) contribute around 2 percent of this growth while the non-resource economy makes up nearly 5 percent (see Figure 2). Key leading sectors include natural resources, construction, trade and other services, and emerging food and nonfood processing industries. Agriculture is expected to grow slowly this year due to flooding and falling prices in recent months, although the GOL has made efforts to support recovery of the sector. Similarly, tourism is likely to be affected by the financial crisis, especially for the fourth quarter of 2008 and during 2009, partly due to knock-on effects from the expected tourism downturn in Thailand and the region as a whole.

Figure 1. GDP growth (%) and inflation (% change)



Source: Lao authorities (DoS) and staffs estimates.

Figure 2. Growth (%) with and without resource sector



Source: Lao authorities (DoS) and staffs estimates and projections

The non-resource sector contributed nearly 5 percentage points to overall growth, while the remaining 2 percentage points came from the resource sector

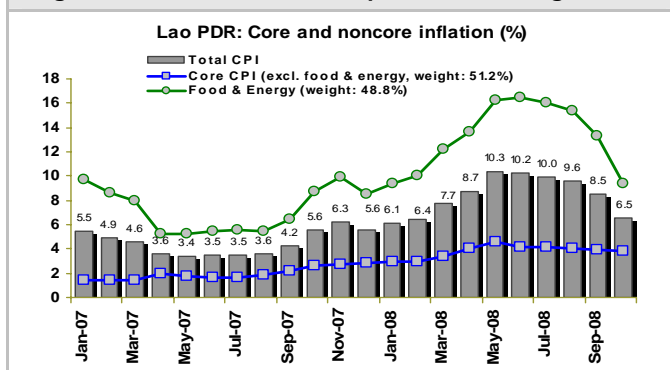
Inflation

Having peaked at 10.3 percent in May this year, inflation has dropped back to one digit level in recent months.

Following recent drops in global oil and food prices, the overall inflation rate decreased to 6.5 percent in October 2008 from a peak level of 10.3 percent in May 2008. Core inflation (without food and energy/fuel) was low during the past 12 months at just around 4 percent, while food and energy inflation (combined) was remarkably high in the past months but started to decline quickly (from 16.5 percent in June 2008 to 9.4 percent in October) - see Figure 3. Specifically, food prices dropped from 14.1 percent in August (the highest level) to 9.9 percent in October while energy consumer price index (CPI) decreased drastically from 32 percent in July 2008 to 6.6 percent in October 2008.

Among key food items, rice, poultry and vegetable prices were high during the last six months partly due to seasonality and insufficient supply caused by recent flooding and Avian flu threats. However, glutinous rice prices have dropped precipitously during the last three months to just above 2 percent in October (Figure 5). Fuel prices had been very high during 2008, but started to decline in the last two months (from 32 percent in July 2008 to 6.6 percent in October 2008). Prices of core consumer items were relatively low in the past six months (just below 5 percent) except housing and restaurants (served food), which was at around 13-17 percent.

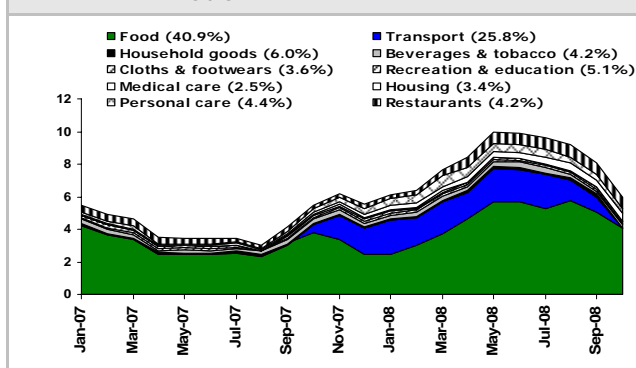
Figure 3. Food and nonfood prices (% change)



Source: Lao authorities (DoS/MPI) and staff calculations

Inflation is back to one digit level, and is expected to decline further

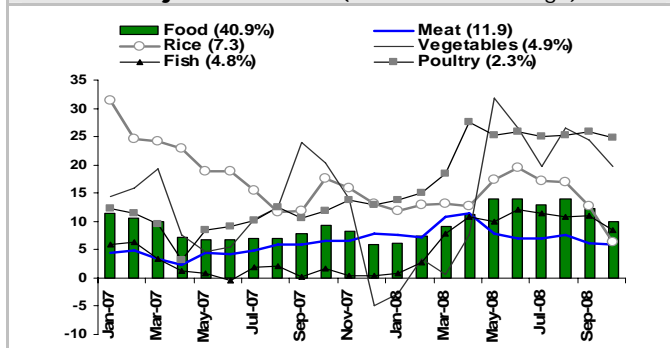
Figure 4. Contribution of food and other prices to inflation²



Source: Lao authorities (DoS/MPI) and staff calculations

Food and energy (fuel) prices contributed the most to the recent high inflation episode in Lao PDR

Figure 5. Food breakdowns: price change for major food items (12-month % change)



Source: Lao authorities (DoS/MPI) and staff calculations.

Decline in glutinous rice prices and other food items led to lower overall food inflation although poultry and vegetable prices remained high in recent months. Food prices in Lao PDR are very sensitive to seasonality



² Lao CPI weight distributions (out of 100): food - 40.9 percent of total CPI, Beverages & tobacco - 4.2 percent, Clothes & footwear - 3.6 percent, Housing - 3.4 percent, Household goods - 6.0 percent, Medical care - 2.5 percent, Transport & communications - 25.8 percent, Recreation & education - 5.1 percent, Restaurants - 4.2 percent and Personal care - 4.4 percent.

Exchange rates and external balances

The kip exchange rate continued to appreciate against major foreign currencies. During the last six months (May-Oct 2008), the kip's nominal effective exchange rates (NEER) appreciated by nearly 2 percent against the US dollar and over 11 percent against Thai baht - see Figure 6. Real exchange rates are expected to move in the same direction. NEER levels were 8,548 kip per US\$ and 246 kip per baht at end-October 2008.

In the first half of 2008, exports increased by more than 30 percent (in nominal terms) compared to the same period of 2007 driven by resource and other exports. Imports also grew at similar pace, largely due to high prices of fuel and other investment imports. The current account deficit is expected to remain high in 2008 (17 percent of GDP) but the non-resource current account balance is expected to stay at one digit level (9 percent) - see Figure 7

The gross international reserves declined in the last two months (from nearly US\$700 million in June 2008 to about US\$660 million by August 2008). On a year-to-year basis, broad money grew by 39 percent in 2007 and by about 24 percent in August 2008 (compared to August 2007). Banking sector credit increased rapidly by almost 46 percent during the first 8 months of 2008 or about 70 percent compared to August 2007. Lending by SOCBs nearly doubled on year-to-year basis. This rapid growth poses strong risks of creating new NPLs, is putting pressures on monetary sector and raises liquidity issues in already insolvent banks.

Government revenue performance

Notwithstanding recent emergency spending, fiscal performance continued to strong, but is facing significant risks related to decreases in commodity prices. Revenue collection grew and budget deficit declined as the government progressed on the path of consolidation. The GOL's fiscal revenues are expected to reach the target of around 14.9 percent of GDP in FY2007/08 compared to 14.0 percent in FY2006/07 driven by increases in both resource and non-resource revenue - see Figure 9. Domestic expenditures slightly

Figure 6. Lao exchange rates (Dec 2006=100)

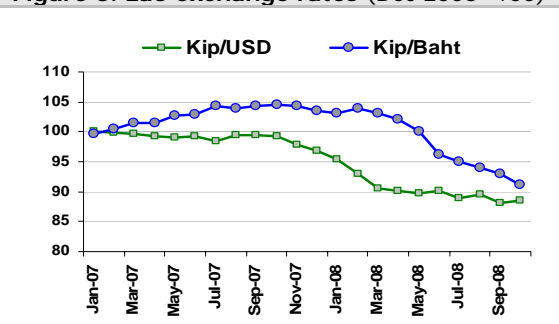


Figure 7. External balance (% change)

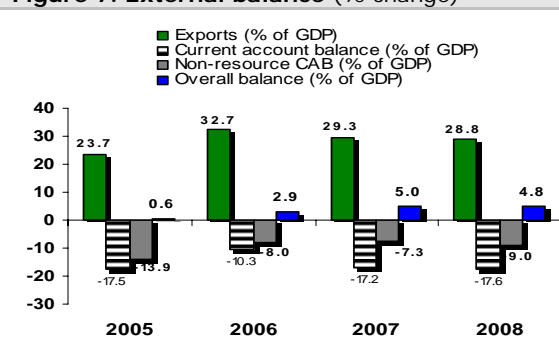
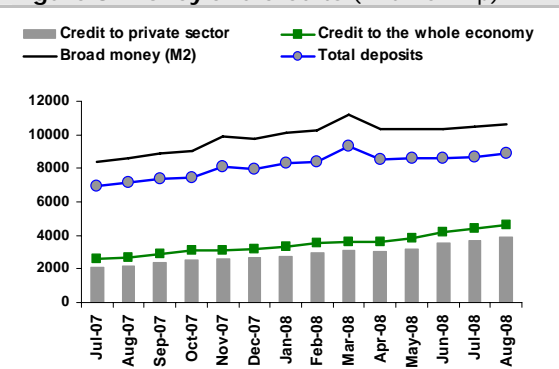


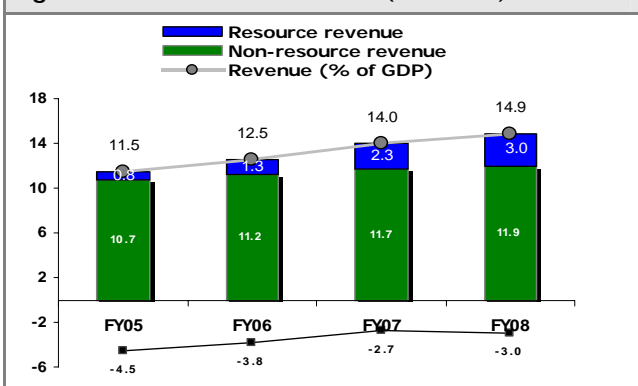
Figure 8. Money and credits (in billion kip)



Source: Lao authorities (BOL) and staff estimates.

exceeded the target at about 19.2 percent of GDP in FY2007/08 compared to 18.5 percent in FY2006/07 due to contingency spending on the recent flood and food and oil prices mitigation measures. As a result, the overall budget deficit is estimated at about 3.0 percent of GDP in FY2007/08, slightly higher compared to 2.7 percent in FY2006/07. Looking ahead, the revenue stream is expected to decline due to reduced commodity prices and exports.

Figure 9. Government revenue (% of GDP)



Source: Lao authorities (MoF) and staff estimates.

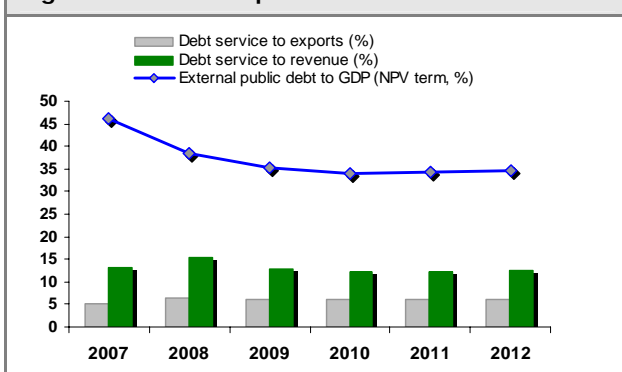
The GOL has achieved its revenue target for the third consecutive year.

External public debt

The 2008 debt sustainability analysis (DSA) shows that Lao PDR remains at high risk of debt distress, even though debt service indicators are below the indicative thresholds for low income countries (LICs). The NPV external public and publicly guaranteed (PPG) debt as percentage of GDP remains high but on a declining trend: it decreased to 46 percent of GDP in 2007 and is expected to drop further to about 38 percent by end-2008 (however, it remains above the LIC indicative threshold of 30 percent). At the same time, the NPV PPG debt to exports ratio dropped to

129 percent in 2007 and is estimated to fall to 106 percent in 2008 (still above the LIC indicative threshold of 100 percent). The PPG debt service-to-exports ratio (in percent) was about 5 percent in 2007 (compared to the LIC indicative threshold of 15 percent) and is expected to remain at around 6 percent this year and over the medium-term. The PPG debt service-to-revenue ratio was at about 15 percent in 2007 and 2008 (compared to the LIC indicative threshold of 25 percent), and is expected to go down to around 12 percent in 2009-2010.

Figure 10. External public debt



Source: IMF/WB (DSA 2008)

Although public external debt stocks are high, key debt ratios to GDP, exports and revenue have declined fairly fast in recent years and debt service remain manageable



The international financial turmoil, escalated over the past few months due to large credit write-downs by major financial institutions in the US and other large economies, has intensified pressures for consolidation across all sectors. At the same time, a significant decline in lending activity globally is now a reality. The crisis will have implications for growth in low income countries, especially through falling investments, declining demand for exports and falling commodity prices.



In Lao PDR, vulnerabilities stemming from the financial turmoil feed through different channels. The underdeveloped financial sector slows down the transmission, which is happening through the real economy. However, the impacts on foreign direct investment, commodity prices, potential private sector credit constraints, and declining exports create substantial risks for the Lao economy. In addition, the decline in fiscal revenues may limit Government's ability to conduct fiscal policy, at the time when a fiscal stimulus is most needed.

Foreign Investment

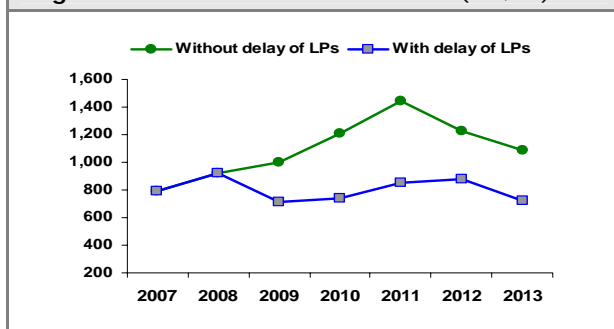
Future FDI in Lao PDR will decline as a result of the financial turmoil and the global economic downturn. Planned investment could fall over the medium term as the liquidity crisis continues and cost of borrowing rise against the backdrop of less stable macroeconomic situation in developing countries generally, and declining global demand and commodity prices. While this should not affect existing projects under construction in Lao PDR (although this risk cannot be fully eliminated if the credit crunch continues), it may cause a significant reduction in the amount of projected investments,

especially into hydropower, mining and other projects.

Figure 11 below shows that:

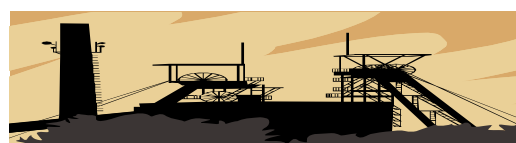
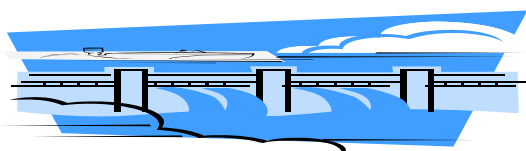
- If there are significant delays in large resource sector projects³, future FDI is likely to plunge in 2009-10.
- However, if these large projects (LPs) move ahead as planned in the next year, the overall FDI in Lao PDR would remain high and continue to grow over the medium-term.

Figure 11. Lao PDR: FDI simulation (US\$ m)



Source: WB staff projections and simulations

Since FDI in the resource sector accounts for more than 80 percent of total foreign investment in Lao PDR, potential delays in large resource projects (hydropower and mining) would have significant impacts on future investment and growth

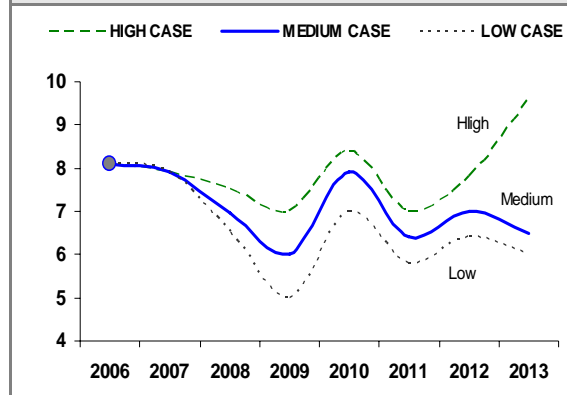


³ Large power and mining projects in pipeline include: Hongsa Lignite, Nam Ngum 3, Nam Ngiep 1 and NT1 (with combined investment costs of over US\$4 billion and installed capacity of around 3000 MW) and copper expansion by OZ Minerals.

Future Growth

Real GDP growth is expected to remain fairly strong, although it is slowing down due to the recent global shock. Preliminary projections⁴ (Medium Case scenario⁵) show that with delays in large projects, annual GDP could grow at about 6.5 percent during 2009-2013 and about 6 percent in 2009, driven by new outputs from hydropower projects currently under construction (Nam Theun 2, Nam Ngum 2 and other), Sepon Mine expansion in 2010, agro-processing and plantations, construction, trade and other services. In the Low Case scenario, GDP would grow only at around 6 percent a year (5 percent in 2009) -- slightly below the average growth rate for the past two decades of 6.5 percent. The path that will materialize depends on the depth and length of the global financial turmoil, as well as on its impacts on the real economy in developed and neighboring countries. In order to support growth under any global scenario, further reform progress is required to support and promote growth in non-resource sectors: agriculture, services, and manufacturing.

Figure 12. Lao PDR: Growth simulation⁵ (%)

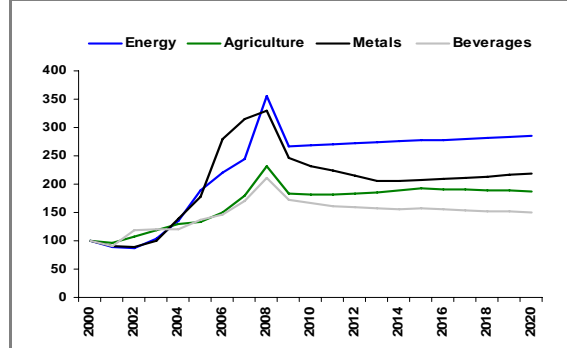


Source: WB staff projections and simulations

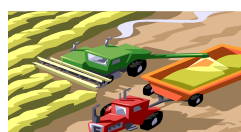
Commodity Prices

Global commodity prices have fallen drastically in recent months due to lower global demand. Prices for major commodity groups, such as energy, agriculture, metals and beverage have dropped quickly during the last few months and are expected to continue to decline in 2009 - see Figure 13. Based on most recent projections, the commodity price is expected to decrease by 26 percent for oil, 32 percent for copper, 13 for gold, 22 percent for rubber and 27 percent for maize in 2009 compared to 2008 - see Figure 14 and Figure 15. These price movements are expected to have impact on fiscal and external position of the Lao PDR.

Figure 13. Prices of major commodity groups (index 2000=100)

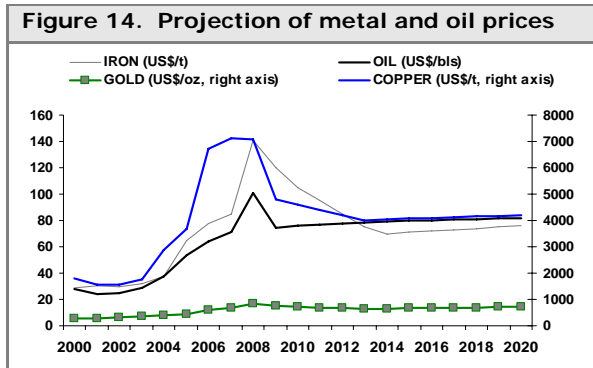


Source: WB/DECGP's projections (as of Nov 04, 2008)

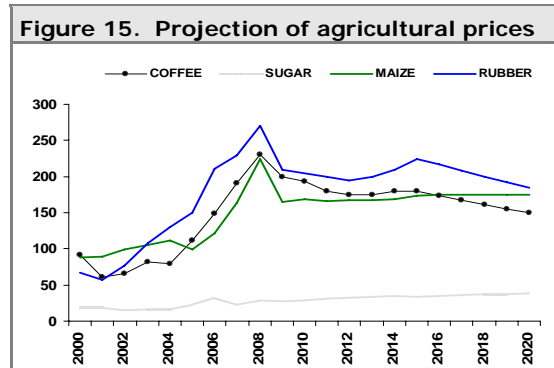


⁴ These projections are based on information available as of November 15, 2008. Given the uncertainty in the global outlook, the WB will continue monitoring the developments and will issue a follow up note should events occur that would change the current projections dramatically.

⁵ Key assumptions for the growth scenario are the following: (1) **High Case**: no delays in major power and mining projects with an average annual growth rate at around 4 percent for agriculture and about 7.5 percent for services sector (including 5 percent in tourism in 2009); (2) **Medium Case**: delays in the majority of the large power projects (except the Theun-Hinboun power project) with an average annual growth rate of about 3 percent for agriculture and 6.0 percent for services sector (including 3 percent in tourism in 2009); and (3) **Low Case**: delays in most large power projects (except Theun-Hinboun Expansion) with an average annual growth rate of about 2 percent for agriculture and nearly 4.0 percent for services sector (including zero percent in tourism in 2009). All scenarios assume that all ongoing large hydropower projects under construction (NT2, Nam Ngum 2, Sekaman 3, Xeset 2, Nam Ngum 5 and Nam Ngiep 1-2) will be completed and start production as planned.



Source: WB/DECGP's projections (as of Nov 04, 2008)

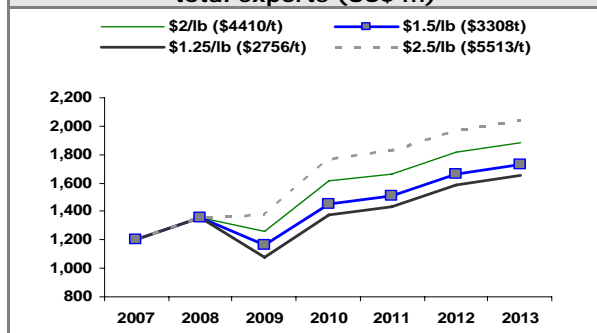


Source: WB/DECGP's projections (as of Nov 04, 2008)

Future exports

Lao exports in the medium-term will be affected by falling commodity prices and lower global demand. Prices for major Lao export commodities, such as metals (gold and copper) and agricultural products (rice, coffee, maize, rubber and other crops) have dropped sharply in recent months and are projected to decline further next year. Thus, overall exports (levels) are expected to decrease significantly in 2009 due to a sharp decline in mining exports, but then rebound from 2010 onward driven mainly by electricity exports from NT2 and other power projects. However, the overall exports remain sensitive to copper price changes - see Figure 16.

Figure 16. Impacts of copper price changes on total exports (US\$ m)



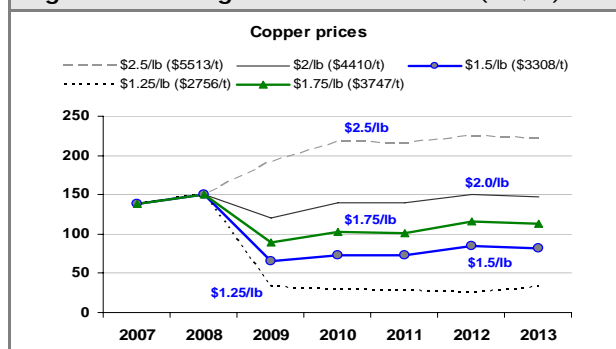
Source: WB staff projections and simulations

Note: It is assumed that the copper export volume remains constant.

Fiscal Impacts of Commodity Prices

Changes in commodity prices have large fiscal implications for the GoL. Figure 17 shows that mining revenues are expected to fall by half in 2009 due to the fall of the copper price in recent months (from above US\$8,000 per ton in July 2008 to just below US\$4,000 in October 2008). Reduction in mining revenues would put pressure on the ability of GoL's to conduct fiscal policy, and potentially on social sector spending. Oil price decline, while beneficial for the economy as a whole, will also have a negative fiscal impact through reduction in revenues.

Figure 17. Mining revenue simulation (US\$m)



Source: WB staff projections and simulations



2 STRUCTURAL AND POLICY REFORMS

The Government continued to make progress in key reform areas in 2008 despite recent oil and food price shocks and global financial crisis. Most reforms were on track, especially with regard to strengthening the legal framework (introducing new laws and regulations), and implementation of previously

adopted laws and decrees, although at a slow pace. Detailed discussions on key reform areas, such as public finance management (PFM), state-owned enterprise (SOE) restructuring, banking sector reform, trade and private sector development are presented below.

2.1 PUBLIC EXPENDITURE POLICY AND MANAGEMENT

Public finance management reforms continue to be implemented within the overall umbrella of the Public Finance Management Strengthening Program (PFMSP). Beginning in 2008, revenue side reforms, mandated via the Budget Law 2008, are being included within the PFMSP umbrella. During the last six months, the government has continued to make progress on centralization of the Treasury, Customs and Tax Departments in three southern provinces. There has also been progress in implementation of the second phase centralization in the central provinces, development of a new fiscal transfer system, establishment of greater control of public finance resources, and alignment of policies to the budget. The new Audit Law was promulgated by the national assembly (NA) in July 2007, to allow the State Audit Organization (SAO) to directly report to it instead of to the Executive branch of Government; the SAO has initiated the audit of the FY2006/07 budget execution report of four ministries and three provinces. This was the first year that the SAO certified the budget execution report (for FY2006/07) which was submitted to the NA by the Government in the June 2008 session. In order to fully implement the PFMSP, the Government will require significant capacity enhancement, continued political commitment, technical assistance, a 3-5 year implementation plan, and a revenue sharing framework. Currently, advisory services are being provided by the World Bank to the Ministry of Finance on the design of the revenue sharing framework and on preparations for the implementation of the Value Added Tax (VAT), which is currently planned for 2009. Successful implementation will require close coordination between the Tax, Customs and Treasury Departments.

Fiscal policy

Revenue policy and administration reforms have resulted in strong revenue performance. For the third year in a row, revenue collection has met (and slightly exceeded) the budgeted revenue collection targets. Revenue collection *excluding* grants as a share of GDP has risen from 12.6 percent of GDP in FY2005/06 and 13.9 percent of GDP in FY2006/07 (slightly above budget estimates), and it is expected to increase to 14.9 percent of GDP in FY2007/08. Revenue increases have helped reduce the fiscal deficit from 3.8 percent of GDP in 2005/06 and to 2.7 percent of GDP in FY2006/07 and it is estimated at about 3.0 percent of GDP in FY2007/08. Resource revenues are making a growing contribution to GDP, having increased from 1.1 percent of GDP in FY2005/06 to 2.3 percent in FY2006/07, and are still estimated to increase to 3.0 percent of GDP in FY2007/08, notwithstanding the declining prices.

Even though expenditures were in line with annual budget estimates, external financing and grants as percentage of GDP has been declining over the past two years. Nominal recurrent expenditures, including wages and salaries have been rising as a reflection of the increase in the salary multiplier from 1800 in FY2005/06, to 2000 in FY2006/07, and to 2500 for FY2007/08. The salary multiplier is expected to increase to 3000 for FY2008/09, given the GoL's plan to raise incentives/benefits for staff working in remote areas from FY2008/09. It is very important that these increases stay within the non-resource fiscal envelope to ensure fiscal sustainability. Growth trends in public sector wages are also worrisome in the environment of the financial crisis and expected decline in GOL's revenue collection due to worsened economic prospects (mining exports, tourism and reduced tax from fuel imports), especially in 2009.

Recent fiscal performance demonstrates the GoL's commitment to fiscal sustainability. The government successfully resisted pressures to expand expenditures in response to strong revenue collection, thereby demonstrating its commitment to macro-fiscal stability. The deficit, including grants, declined in the last two years as revenues have performed above estimates and expenditures have been contained at budgeted levels.

The GoL's continued effort at reducing leakages, has improved tax revenue collection. Traders have been required to disclose the identities of purchasers and an electronic tax return submission system has

been introduced for large tax payers. These measures have increased the transparency of the tax system and helped to raise tax revenue, which exceeded the target by about 23 percent in FY2007/08.



Table 1. Government Revenues

| | FY06 | FY07 | FY08 |
|-----------------------------|--------------------------|-------|-------|
| | <i>(billions of Kip)</i> | | |
| Revenue & Grants | 4,962 | 6,015 | 7,004 |
| Revenue | 4,266 | 5,341 | 6,435 |
| Tax Revenue | 3,641 | 4,729 | 5,624 |
| Resource revenue | 390 | 880 | 1,305 |
| Non-tax revenue | 625 | 612 | 812 |
| Grants | 696 | 674 | 569 |
| | <i>(percent of GDP)</i> | | |
| Revenue & Grants | 14.6 | 15.7 | 16.2 |
| Revenue | 12.5 | 14.0 | 14.9 |
| Tax Revenue | 10.7 | 12.4 | 13.0 |
| Resource revenue | 1.1 | 2.3 | 3.0 |
| Non-tax revenue | 1.8 | 1.6 | 1.9 |
| Grants | 2.0 | 1.8 | 1.3 |

Source: Preliminary staff and authorities estimates.

Table 2. Government Expenditures

| | FY06 | FY07 | FY08 |
|--------------------------------|--------------------------|-------|-------|
| | <i>(billions of Kip)</i> | | |
| Total expenditure | 6,262 | 7,066 | 8,300 |
| Current expenditure | 3,124 | 3,526 | 4,977 |
| of which Wages & Salaries | 1,263 | 1,589 | 2,145 |
| Capital Expenditures | 2,529 | 2,856 | 3,322 |
| of which domestically-financed | 403 | 541 | 789 |
| Others | 609 | 684 | - |
| | <i>(percent of GDP)</i> | | |
| Total expenditure | 18.4 | 18.5 | 19.2 |
| Current expenditure | 9.2 | 9.1 | 11.5 |
| of which Wages & Salaries | 3.7 | 4.0 | 5.0 |
| Capital Expenditures | 7.4 | 7.3 | 7.7 |
| of which Domestically-Financed | 1.2 | 0.1 | 1.8 |
| Others | 1.8 | 2.0 | - |

Source: Preliminary staff and authorities estimates.

Key priority sector spending

Although social sector spending is given priority, under-funded recurrent expenditures limit service delivery. Spending in the GoL's four priority sectors as a percentage of total government expenditure has been fluctuating since FY2004/05. Although it increased to 52.9 percent in FY2005/06 from 47.1 percent in FY2004/05, it declined to 47.3 percent of total government expenditure in FY2006/07. It is widely agreed that recurrent expenditures have been under-funded, particularly in the social sectors, and it is encouraging to see that recurrent expenditures of education and health sectors increased from 6.1 percent and 1.5 percent in FY2005/06 to 6.5 percent and 1.6 percent in FY2006/07, respectively.

However, disaggregate budget data shows that non-wage recurrent expenditures were somewhat crowded out by wage bill in the education sector. Overall, recurrent expenditures in priority sectors are on an increasing trend, from 9.1 percent of total budget in FY2005/06 to 9.4 percent in FY2006/07, while capital expenditure decreased from 43.8 percent in FY2005/06 to 37.8 percent in FY2006/07 – see Table 3. As a percentage of total public expenditure, infrastructure accounted for the largest share of spending and education spending increased slightly, while health expenditure was the smallest share of spending amongst the four priority sectors.

Table 3. GOL's 4 priority sectors expenditures

| | FY05 | FY06 | FY07 |
|----------------------------|----------------------------------|-------|-------|
| Overall spending | <i>(billions of kip)</i> | | |
| Four sectors | 2,452 | 3,279 | 3,347 |
| Agriculture | 323 | 477 | 365 |
| Infrastructure | 1,156 | 1,551 | 1,561 |
| Education | 649 | 1,026 | 1,191 |
| Health | 324 | 226 | 229 |
| | <i>(percent of total budget)</i> | | |
| Four sectors | 47.1 | 52.9 | 47.3 |
| Agriculture | 9.2 | 9.1 | 9.4 |
| Infrastructure | 38.0 | 43.8 | 37.8 |
| Education | 6.2 | 7.7 | 5.2 |
| Health | 22.2 | 25.0 | 22.1 |
| | <i>(percent of GDP)</i> | | |
| Four sectors | 8.3 | 9.8 | 8.7 |
| Agriculture | 1.1 | 1.4 | 1.0 |
| Infrastructure | 3.9 | 4.6 | 4.1 |
| Education | 2.2 | 3.1 | 3.1 |
| Health | 1.1 | 0.7 | 0.6 |
| Recurrent spending: | <i>(percent of total budget)</i> | | |
| Four sectors | 9.2 | 9.1 | 9.4 |
| Agriculture | 1.1 | 1.0 | 0.9 |
| Infrastructure | 0.5 | 0.5 | 0.4 |
| Education | 6.0 | 6.1 | 6.5 |
| Health | 1.6 | 1.5 | 1.6 |

Source: Staff estimates based on authorities (MoF) data

Recurrent expenditure in the GoL's four priority sectors increased in FY07, especially in education and health, although overall priority sector spending declined due to lower public investment

Key reform progress

The GOL is implementing the new Budget Law progressively. Piloting of centralization of the Treasury, Customs and Tax Departments has been completed in Savannakhet, Khammuane and Bolikhamxay provinces and is currently being implemented in Vientiane Capital and Vientiane province. With support from international technical assistance, a new revenue sharing and distribution framework has been designed and is being finalized. Budgetary norms are being worked out to facilitate the appropriate budget allocations. The Decree on Implementation of the revised Budget Law approved by the GOL in February 2008 clearly defines revenue assignments between central and local levels and these are to be applied from FY2008/09 onwards. Some progress has been made in implementing the Public Finance Management Strengthening Program (PFMSP, formerly PEMSP) FY2007/08 work plan and a multi-donor trust fund is planned to be launched in October 2008 to provide financial support to PFMSP.

Efforts are being mobilized to make preparations for the Value Added Tax (VAT) implementation in 2009. A VAT team within the Tax Department has been established to work full-time with an international VAT advisor. Presently, the Implementation Decree of the VAT Law is

being drafted and thereafter other related ministerial instructions, such as on registration and refund, will be prepared. Intensive training of the tax officers responsible for VAT implementation will take place from October 2008. Successful implementation of the VAT will depend on ensuring that all parties concerned are familiar with the new VAT system; workshops and seminars will be conducted with expected VAT taxpayers and information on the new VAT system should be disseminated to the general public.

The revised Chart of Accounts (COA) has been approved by MOF and audit reforms are making progress. Ministries and equivalent agencies and provinces are required to apply the approved COA for the formulation of their budget plans from FY2008/09. An Audit Peer Review (APR) of State Audit Organization (SAO) that had been conducted by SAO of New Zealand during the first half of February 2008, was reviewed by SAO and will be finalized by the end of this year. Thereafter a capacity development plan will be drafted to strengthen SAO capacity so that it is able to perform external audits more effectively. SAO has already performed audits of the FY2006/07 budget execution reports of four central ministries and three provinces.

Implementation of new Customs Law has been progressing. During the last few months, MoF has made progress on developing the Ministerial Instructions and Operational Manuals for the Customs Law. These regulations are expected to be completed and adopted by the GOL in December 2008.



Steps are being taken to improve timeliness of civil servants' salary payments and to strengthen public sector performance. The GOL has piloted an electronic salary payment system to replace manual cash payment. As of October 2008, the salaries of all civil servants at the central level are being deposited to their individual bank accounts and can be withdrawn through ATMs. The GoL plans to extend the electronic salary payment system to all provinces in FY2008/09; initially it will be introduced in Vientiane Capital and Savannakhet and Champasack provinces.

2.2 REFORM OF STATE-OWNED ENTERPRISES

SOE reforms implemented in the early 1990s reduced the size of the sector by closing down, leasing, merging and selling a large number of SOEs. During the second half of the 1990s, several large SOEs generated a large share of non-performing loans (NPLs) in the state-owned banking system. The NPLs put the banking system at risk of instability and were ultimately funded by Government revenue. The SOEs today are not only fewer in number, but play a significantly smaller role in Lao's economy in terms of GDP share and total employment. Nevertheless, SOE reforms are important to strengthen sector performance, maximize public resource use, enhance revenue contribution to the budget and improve quality of utility sector services.

The current round of SOE reforms was initiated in 2001 and has three objectives: (a) improving transparency and governance of the state enterprise sector; (b) restructuring the larger SOEs whose losses and accumulated debt to banks were undermining both the budget and the financial sector; and (c) rationalizing the regulatory and pricing environment for infrastructure SOEs through tariff policy reform. Progress over the last few years has been uneven, but the GOL has improved SOE monitoring and reduced NPLs originating from the SOE sector (a much larger share of NPLs over the last 3 years have been private sector based). The pace of progress during 2005 was slow and uneven, but gained significant momentum in 2006.

More SOEs made profits in 2006 although there is much room for further improvement. To assist the SOE restructuring process and with the support of the World Bank, the Business Promotion Office (under PMO) conducted independent financial audits for FY2004/05 and FY2005/06 for four Phase II SOEs and three Phase I SOEs.⁶ The BPO is currently working with four Phase II SOEs to develop restructuring plans, which are expected to be completed in early 2009. Analysis of available financial information from various sources⁷ indicated that 7 out of 13 SOEs under restructuring generated profit during 2006, with profit margins ranging from 0.7–17.0%. Key findings of the independent audits include: 1) weak control over fixed assets, cash, purchases, trade and other payables; 2) absence or inadequate documentary support for the cost and

revaluation of fixed assets, and trade payables; 3) lack of comprehensive accounting policies and procedural manuals; lack of proper budget plans and projected cash flow; 4) some of the audited SOEs had negative equity and high liquidity risk.

Clear strategic focus is required to make significant progress in SOE reform. In the medium to long term, it is essential to consider adopting far-reaching policy decisions to improve performance of the SOE sector by identifying strategic and non-strategic SOEs; withdrawing from non-strategic SOEs; clarifying the role of BPO; corporatizing strategic SOEs; strengthening state-assets value management; and enhancing shareholder functions of the Ministry of Finance.

⁶ Current SOE restructuring is divided into 3 phases. Phase I started in 2004 and consists of four large SOEs (BPKP, Lao Airline, Nam PaPa Nakhonluang and Pharmaceutical Factory No. 3); Phase II started in 2005 and consists of four medium SOEs (Agriculture Industry Development Import-Export State Owned Enterprise, Lao State Fuel Company, Société Lao Import-Export, and Road Construction Company); and Phase III started in 2006 for five SOEs (DAFI, LXP, LVSVT and LVKK).

⁷ Main sources on information include audit reports, Preliminary assessment of Phase III SOEs and SOE Finance Management Department.

Tariff policies for infrastructure SOEs

Most infrastructure and services in Lao PDR are provided by SOEs, although private providers deliver a high proportion of telecommunications. Despite significant recent adjustments, tariffs lagged behind inflation and remain below full cost-recovery levels. Low and complex tariff structures have led to inefficient energy and water use, and reduced the resources available for further investment. Major arrears are owed to utilities, including from the GOL budget, and now the utilities themselves have fallen behind on servicing their debts to the GOL.

Cognizant of the need to reduce budgetary subsidies and tap into the private financing, the GOL has been moving to more appropriate tariffs and prices, including more competitive pricing in telecommunications and airline services. The GOL is implementing a strategy to lift utility tariffs to cost-recovery levels, minimize cross-subsidy among consumer categories, reduce budgetary subsidies, improve their business performance and increase private participation and investment. Achievements of cost recovery targets were ahead of schedule in the electricity sector. Telecom tariffs (wireless) and airfares are now set on a commercial basis to reflect market demand and competition.

Water sector

The GOL continues to improve water tariff structures. The GoL (Water and Sanitation Authority, MPWT) has implemented its 2008-2010 tariff review. Fourteen provincial water and sanitation authorities (Nam Papas) have already agreed the new tariff changes, with the remaining provinces having the new tariffs under approval. Between 2007 and 2008, there has been an overall average increase of about 60% in the domestic tariff (see Table 4) as the government encourages commercialization of the urban water supply sector and reduces subsidies step-by-step. Water supply utility tariffs are moving up from a very low base compared to other utility sectors. The largest domestic water tariff increase has been in Attapeu (243%) with the lowest increase in Oudomxay (13%).

Expansion of the water supply and sanitation activities is continuing. An Appraisal Mission MOU for a new urban water supply and sanitation project has been signed recently between GoL (MPWT) and ADB. The Small Towns Water Supply and Sanitation Sector Project is due for approval by end-2008, and will be implemented from 2009-2013. As main supporter to the urban water supply sector, ADB's continuing assistance has seen the number of urban centers with a water supply utility increase from about 3% in 1994 to nearly 60% today (about 46% of urban centers have a constructed water supply system and about 14% of the remaining urban centers with agreed financing).

Table 4. Change in water tariff for households from 2007 to 2008
(Kip/m³)

| Province | 0 - 10 m ³ | | | 11 - 20 m ³ | | | 21 - 30 m ³ | | | > 30 m ³ | | |
|--------------------|-----------------------|------|----------|------------------------|------|----------|------------------------|------|----------|---------------------|------|----------|
| | 2007 | 2008 | % change | 2007 | 2008 | % change | 2007 | 2008 | % change | 2007 | 2008 | % change |
| Attapeu | 860 | 2950 | 243% | 860 | 2950 | 243% | 860 | 2950 | 243% | 860 | 2950 | 243% |
| Bokeo | 1292 | 2880 | 123% | 1292 | 2880 | 123% | 1292 | 2880 | 123% | 1292 | 2880 | 123% |
| Borikhamxay | 1450 | 2550 | 76% | 1450 | 2550 | 76% | 1450 | 2550 | 76% | 1450 | 2550 | 76% |
| Champasack | 927 | 3000 | 224% | 1295 | 3000 | 132% | 1634 | 3000 | 84% | 2026 | 3000 | 48% |
| Huaphanh | 1487 | 2116 | 42% | 1487 | 2116 | 42% | 1487 | 2116 | 42% | 1487 | 2116 | 42% |
| Khammuane | 1100 | 2300 | 109% | 1100 | 2300 | 109% | 1100 | 2300 | 109% | 1100 | 2300 | 109% |
| Luangnamtha | 700 | 900 | 29% | 700 | 900 | 29% | 700 | 900 | 29% | 700 | 900 | 29% |
| Luangprabang | 750 | 1000 | 33% | 850 | 1100 | 29% | 850 | 1100 | 29% | 1000 | 1250 | 25% |
| Oudomxay | 1600 | 1494 | -7% | 1600 | 1808 | 13% | 1600 | 1808 | 13% | 1600 | 2121 | 33% |
| Phongsaly | 1800 | 3500 | 109% | 2067 | 3500 | 77% | 2400 | 3500 | 64% | 2500 | 3500 | 51% |
| Saravane | 1500 | 1500 | 0% | 1700 | 2500 | 47% | 1800 | 3000 | 67% | 1800 | 3000 | 67% |
| Savanakhet | 1183 | 1400 | 44% | 1233 | 1700 | 62% | 1267 | 2200 | 102% | 1433 | 3000 | 142% |
| Sekong | 1500 | 1900 | 27% | 1500 | 2650 | 77% | 2500 | 3500 | 40% | 3900 | 3500 | -10% |
| Vientiane | 420 | 420 | 0% | 685 | 685 | 0% | 685 | 685 | 0% | 1060 | 1060 | 0% |
| Capital City | | | | | | | | | | | | |
| Vientiane Province | 1261 | 2050 | 63% | 1261 | 2700 | 114% | 1261 | 2700 | 114% | 1261 | 3000 | 138% |
| Xayabury | 1600 | 2500 | 56% | 1600 | 2500 | 56% | 1600 | 2500 | 56% | 1600 | 2500 | 56% |
| Xieng Khouang | 850 | 1400 | 65% | 1700 | 2350 | 38% | 2000 | 3850 | 93% | 2000 | 3850 | 93% |
| Average | 966 | 1612 | 59% | 1066 | 1819 | 60% | 1166 | 1978 | 61% | 1289 | 2070 | 60% |

Source: WASA, MTPW

Water tariff for households increased dramatically in 2008 on average by 60 percent. Tariffs in Vientiane Capital, Luang Namtha and Luang Phrabang are significantly below the average tariff nationally

GoL is promoting private sector water supply concessions for small operators.

WASA has assisted two private sector water supply concessionaires to provide services since April 2006, with support from INGO GRET. Tariffs charged by the two concessionaires are 2,000 Kip/m³ and 2,400 Kip/m³. Six new sites in Vientiane and Bolikhamxay provinces have been approved. Three of these sites have already selected a private sector water supply operator with construction to begin in 2009. These initiatives have been supported by the development of a financing mechanism, based on the Provincial Investment Funds set up in Vientiane and Bolikhamxay provinces. The mechanism facilitates the management of the Output Based Aid subsidies and a credit scheme developed in collaboration with the

Lao Development Bank to enhance access to medium-term credit services for small operators.

The Water Supply Law is due to be submitted to the National Assembly in 2009.

The draft Law has been submitted to the Ministry of Justice for review and is expected to be finalized by 2010 (according to the official NA timetable). The Law aims to provide a guiding framework for the sector, with proposals for consolidating water supply infrastructure responsibility under a single ministry (MPWT), improving construction and regulation of water supply systems, controlling water quality through a single ministry (Ministry of Health) and promoting private sector participation.

Electricity

Electricité du Lao (EdL) was hit particularly hard by the Asian crisis and ensuing inflation in the late 1990's due to a currency mismatch: its revenues are largely in kip while costs of debt servicing are mainly in US\$. A financial recovery plan was implemented in subsequent years, including converting government debt to equity and making annual tariff adjustments of 25-50 percent. EdL is now reasonably stable and has been able to pay annual dividends to the GOL in the order of \$3-5 million since 2003. Profits from EdL's export operations cover the losses it incurs on the domestic market. The average domestic tariff rate is about 10 percent below the rate required for full cost recovery. Further inefficiencies are created by cross subsidization of residential and agricultural consumers by other consumer categories. In late 2005, the Action Plan for Financial Sustainability of the Power Sector was signed to increase tariffs to cost-recovery levels, eliminate the stock and avoid future additions to the GoL's payment arrears to EdL.

Implementation of the Action Plan for Financial Sustainability is ongoing.

As previously reported, *tariff adjustments* were completed in early 2008. *EDL's operational efficiency* has been improving, with losses falling from above 20 percent in 2005 to less than 17 percent in 2007 and less than 15 percent by August 2008. *Settlement of government arrears* is progressing. The MOF oversees the agreed settlement plan for arrears accrued up to September 2005. The MOF and EDL are close to an agreement on the arrears for FY2005/06 and have agreed in principle that these arrears will be paid during the following three fiscal years: FY2009-11. Both have agreed to complete the verification of the total arrears for FY2006/07 and reach an agreement on a settlement schedule for these arrears by November 2008.

On the other side, MoF's budget allocations have been increasing over the past years and payment of electricity bills is approaching actual consumption. The MOF has tentatively confirmed the budget allocation for FY2007/08 at approximately 59 billion kip (equivalent to 83 percent of the projected

total consumption by Government agencies) and the budget allocation for FY2008/09 at the amount in-line with projected consumption of around 71 billion kip. With these actions, EDL has made a profit from its operation, for the first time, in 2007.

The GOL is moving toward long-term sustainable energy sector development by reforming the sector and maximizing the nation's huge hydropower potential.

The Government strategy for the power sector is to develop its rich hydropower resources for supplying reliable and affordable electricity to meet domestic demand and for export. Electricity demand in the Greater Mekong Sub-region (especially, Thailand, Vietnam and Cambodia) has increased remarkably in recent years driven by strong economic growth in the region and high costs of alternative energy, (especially fuel, although oil prices have dropped significantly in recent months), and a shift towards renewable energy options. Foreign investments in the sector have expanded quickly in the past few years and are expected to continue to grow in the medium and long-term although some slow down is

expected in the near-term due to the financial crisis.

EDL is actively participating in the development of a GMS regional power market supported by GMS countries, ADB and the World Bank. Thus, EDL, Lao Holding State Enterprise (LHSE) and independent power

producers are engaged in ambitious investment plans for export-oriented hydropower development and cross-border transmission lines. Nevertheless, EDL will need to increase its imports of electricity to meet rising domestic demand spurred by emerging industries and large resource projects.

Telecommunications

Availability of telecommunications services in Lao PDR is increasing, particularly mobile voice service, with GSM services now available in most of the country. Tele-density is steadily increasing, but there is a lack of regulation for optimizing the use of infrastructures which leads to unnecessary duplication of investments and problems of inter-connection among services providers. Despite the sub-optimal policy and regulatory regime, private investors appear to be willing to invest in Lao PDR. Currently, there are five operators, one of which is privately owned and provides only internet services. One operator is fully owned by the state, while others have private shares, which vary from 51 to 80 percent. Even though investments are primarily focused on Vientiane Capital and major urban centers, coverage in rural area is being increased. Regulatory adjustments are needed to facilitate sustained private sector investment in sector development. Fixed-line tariffs were revised upwards in early 2004 to bring tariffs closer to real costs. Mobile rates are set competitively by operators and a sharp decrease in connection fees and per minute call charges were reported after the entry of a private provider, Millicom. However, rates are almost identical across companies, signaling limited price competition. A liberalization of telecommunication is a trigger for Lao PDR to access to WTO, thus a National Authority of Post and Telecom (NAPT) was established with a mandate to regulate the telecommunication sector to ensure fair competition among services providers, optimized use of existing infrastructure, and to resolve problems of inter-connection between different providers.

Service capacity of Lao telecommunication sector is expanding while demand has grown fast in recent years. As of June 2008, total capacity of telephone lines, including fixed line, mobile and others, was 2,463,373, of which 1,813,642 lines are being used.

Telephone density in Lao PDR rose to about 32 percent in 2008 from 25 percent in 2007 or up from 285 per 1000 inhabitants to 307 by mid-2008. Fixed line tariffs have not changed yet this year, however, mobile phone services are priced on a commercial basis.

Tariffs of Lao Airlines

Since 2002, Lao Airlines has been adjusting its air travel tariffs on a quarterly basis to cope with seasonal patterns of the tourist market. Air fares were first raised in June 2002 and again by more than 50% in September 2002. The tariffs for most routes remained unchanged in 2003 due to a sharp decline in overall sales (given the large shift from air travel to road transport). Recently, routes have been rationalized and domestic air tariffs adjusted according to market demand, seasonal flows of travelers, and competition from other transport services.

Lao Airlines has made progress on introducing a single tariff system for all customers. Moving toward fully commercialized pricing system, Lao Airlines has introduced a single tariff rate on domestic routes for local and international travelers since early 2008 and abolished a subsidized low tariff policy for local passengers. The action has led to improvement in sales revenue and overall financial condition of the firm.

Like many other airlines, Lao Airlines has been significantly affected by the oil price shock. Because of high fuel prices, Lao Airlines has cut the number of its flights down almost by half and its profitability has declined dramatically due to increased costs.

Nevertheless, Lao Airlines is planning to launch two more international routes: (i) from Savannakhet to Bangkok and (ii) from Luang Prabang to Udonthani. The firm also continues to search for a foreign strategic partner to help raise its service quality and enhance overall business performance.

Other measures were taken to help ease the cost burden. In attempt to improve its financial condition, Lao Airlines has streamlined its services on domestic routes by abolishing unprofitable routes and increasing its services to those with tangible profit. A new domestic route to Savannakhet has also been reopened recently. In addition, to conform with the International Air Transport

Association (IATA) plan for 100% paperless ticketing for airlines, Lao Airlines has introduced web-based direct sales to passengers online (at: www.laoairlines.com) from October 01,

2008. This will allow online reservations and ticketing by Visa/Master Card holders. The airline expects to boost its online sales by 20 percent in the 12 months after the launch.

2.3 FINANCIAL SECTOR REFORM

The latest bank reform in Lao PDR began in 2001 to restructure state banks, improve banking regulation and supervision, and open up the banking system to private and foreign investors. Progress has been slow and the financial condition of State-owned Commercial Banks (SCBs) remains weak. Organizational structures are inadequate and lack checks and balances from external board members. Supervision and enforcement of prudential regulations by the BOL remains slow and it is limited in capacity and tools. There have, however, been some positive signs of change including significant reductions in NPLs and strengthened regular monitoring. SCBs have been susceptible to pressure to engage in non-commercial lending, which can burden their loan portfolios overtime. While poor credit culture and capacity constraints in credit analysis have progressively improved, SCBs remain fragile. International banking advisors in the two SCBs, provided under the ADB's banking reform project, were an important support to transition to a more independent management system.

Financial Sector Reform takes a new direction. For the past seven years the strengthening of the financial sector concentrated on the restructuring of the state owned banks. That work continues, but a broader and more comprehensive view is now being taken. Under the direction of the Bank of Lao a draft Financial Sector Strategy has been prepared. While the draft will undergo various stages of discussion and editing before ultimately being approved and implemented, it does reflect a new stage upon which the financial sector can be strengthened to better serve the economy. The rollout of the draft strategy took place in early November at a broadly attended workshop of stakeholders sponsored by the Bank of Lao.

The formal banking sector remains dominated by state commercial banks, but new private banks have been emerging. Recently there has been a shift in the make up of the sector as private banks have entered the system. The share of total assets held by the government has however remained somewhat constant even as assets in the banking sector have increased. Government owned banks held 59 percent of total assets in 2006, 61 percent in 2007 and as of June 30, 2008, held 59.6 percent. The share held by private and joint venture banks also remained constant, but grew in proportion to the overall growth of assets in the sector. Total assets in the formal sector went from 8,238 billion Kip in 2006 to 12,569 billion Kip in June 30, 2008. The make-up of the sector continues to change, and that change should be reflected in asset numbers by end 2009. The changes are illustrated by Vientiane Commercial Bank which is now majority held by ANZ and the International



Finance Corporation (IFC), by the privately Lao-owned Phongsavanh Bank (100 percent privately-owned locally incorporated bank) which continues to open new branches, and by the entry of Acleda Bank of Cambodia which has recently established a subsidiary, Acleda Bank Lao. Acleda's experience in Cambodia should facilitate greater access to financial services among SMEs and others, and contribute to a shift in banking sector assets to private banks albeit slowly. Other banks have also expressed an interest in entering the market. The presence of these private banks has caused the State-Owned Banks to take a greater interest in their performance which is beginning to result in an increased interest in risk management, governance and new products and services. In the longer term, this increased competition will be positive for the development of the sector, but will put greater demand upon the BoL and its supervisors to ensure that the banking sector is well-regulated.

Recent credit growth may jeopardize the already fragile positions of the state-owned banks (especially of LDB and APB) and may cause quasi-fiscal liabilities in the future. Banking sector credit increased rapidly by almost 46 percent during the first 8 months of 2008, or by about 70 percent compared to August 2007. Lending by SOCBs nearly doubled on year-to-year basis. This rapid growth poses strong risks of creating new future NPLs, and raises liquidity issues in

already insolvent banks (as a result, LDB and APB already have insufficient liquidity, and further unconditional recapitalization would not be desirable). While the economy may be in the need of stimulus to mitigate the impacts of the financial crisis, this stimulus is best implemented through fiscal rather than monetary policy. Given their large impacts on growth and poverty reduction, spending on rural infrastructure and other priority sectors would be advisable.

Recent banking reform progress made by GOL

The GOL approved microfinance regulations. The Government issued a final regulation on Microfinance covering all deposit and non deposit taking microfinance institutions (MFIs) and savings and credit unions on June 20, 2008. The BoL has been working with MFIs to ensure understanding and compliance with the new regulation. The BoL has recently completed a draft Decree on the Implementation of the Law on Commercial Banks. The draft has been reviewed by the Ministry of Justice and comments sent to the BoL. Once adopted, the Decree will provide implementing guidance and clarification to the banking sector on the new Law.

Past efforts to strengthen the banks through international advisers continue to show positive results through a stronger loan portfolio. Reported NPLs have been dropping over the past several years: while many NPLs have been written off, other loan portfolios have shown signs of improvement. The banks have all increased their review of loan applications, but growth between the end of December 2007 and end June 2008 should be carefully monitored. The SCBs grew their loan portfolios in that time period by approximately 38.5 percent and the Private and Joint Stock Banks grew their loan portfolios over the same period by approximately 28.5 percent.

The BoL has made progress on drafting the implementing Decree and regulations for the Banking Law and Secured Transaction Law with support from the International Finance Corporation. The assistance has also included capacity building support in the area of banking supervision and improved understanding by supervisory and examination staff of their roles. Improved skills will facilitate better supervision and greater attention to sector stability. The implementing Decree for the Secured Transaction Law is expected to be discussed during late fall and finalized in December 2008.

Work on building the legal framework for the financial sector has been progressing; however challenges for future implementation remain.



2.4 Trade reform

Lao PDR has gradually been integrating into the world economy since 1989, with accession to ASEAN and joining the ASEAN Free Trade Area (AFTA) in 1997. In 2006, the GOL committed to enhancing donor harmonization and implementing a sector-wide approach to trade-related reforms based on the DTIS/IF Action Matrix⁸. Implementation of the AFTA Common Effective Preferential Tariff (CEPT) scheme started in 1998 and will complete the liberalization schedule by reducing tariffs on imports from ASEAN countries to 0-20 percent by 2005 and 0-5 percent by 2008. The highest current import tariff rate is 40 percent (down from 150 percent in 1995) and is below 20 percent for most product groups. Non-tariff and quantitative import restrictions remain and are the primary binding restrictions in several sub-sectors.

Lao PDR's WTO accession talks gain momentum. The fourth working party meeting took place on July 04, 2008, at which Lao PDR improved its market-opening offers on goods and services and agreement was reached with the EC on opening the Lao market for goods. The next meeting is expected to take place in the first half of 2009.

Work on trade facilitation is progressing but challenges remain. To coordinate inter-ministerial efforts for improving trade facilitation, the MoIC is in the process of developing a Trade Facilitation Master Plan, which is expected to identify a strategic agenda for improving trade facilitation in the country with a proposed implementation structure and clear responsibilities of lead agencies and pre-defined performance indicators. The first consultation workshop was held in October 2008 and the Master Plan is scheduled to be finalized in early 2009. MoIC is also working on two regulations related to import and import licensing procedures: revision of the Prime Ministerial Decree and Ministerial Notification on Import and Export procedures. These two regulations are expected to further streamline trading procedures for goods subject to licenses and technical verifications.

To modernize the customs operations and improve trade facilitation in the country, the GOL has recently launched a trade facilitation project to deploy a new customs IT system (ASYCUDA), which is expected to be fully operational by 2011. The project's implementation structures including a National Steering Committee and Customs Reform and Modernization Team were officially established in early October 2008.



⁸ The action matrix was formulated based on the recommendations of the Diagnostic Trade Integration Study (DTIS) and is implemented under the Integrated Framework (IF).

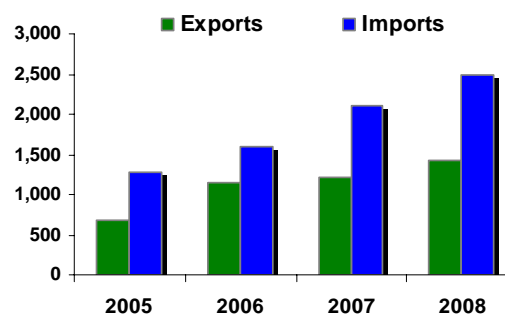
Trade Developments

Lao exports are expected to grow in 2008 although global commodity prices have been falling during the last few months. With strong performance in the first half of 2008 (exports grew by over 30 percent compared to the first half of 2007), exports remain relatively strong overall this year (projected growth by around 15-20 percent on average) despite some slow down in the last quarter of the year due to the decline in global demand and commodity prices - see Figure 18. Imports also grew fast in the first half of 2008 due to high prices of fuel and investment imports (see Figure 20), but are expected to slow down in the second half of the year as major import commodity prices have fallen quickly in recent months.

Lao export structure remains unchanged in 2008 and is driven largely by the resource sector (constituting more than 60 percent of total exports). Major export products include mining (mainly copper and gold – accounting for more than half of total exports), wood and wood products, garments, electricity and agriculture (coffee, maize and other crops). However, exports are expected to slow down in the second half of the year due to rapidly falling global demand and commodity prices - see Figure 19. Lao PDR's major trade partners are in the EAP region while its exports to the US are still marginal. Lao major export markets are ASEAN countries (particularly Thailand, Vietnam and Malaysia), China, Australia and the EU.

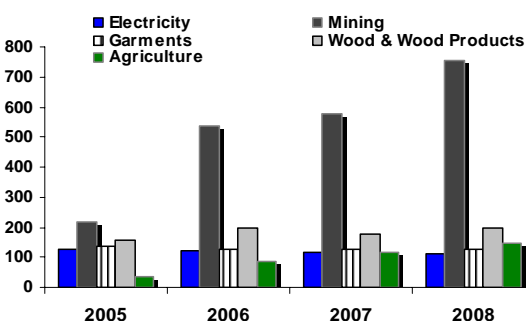
The majority of Lao imports are capital goods. Imports of capital investment goods (machinery, construction equipment, construction materials and other) account for about 60 percent of total imports while consumer products made up around 30 percent and intermediate goods (raw materials) constitute nearly 10 percent - see Figure 20. Overall, imports are expected to climb by about 20 percent in 2008. Most imports to Lao PDR are from its regional neighbours, namely, Thailand, Vietnam, China, Japan, and Korea.

Figure 18. Lao PDR exports and imports
(2005-2008, mil. US\$)



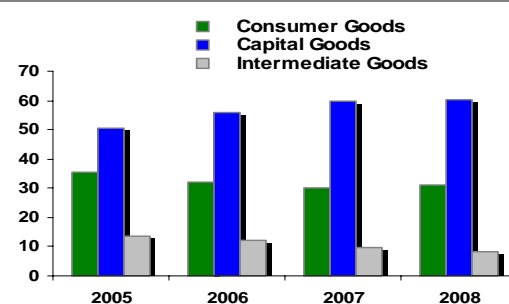
Source: Lao authorities and partner countries data.
Latest staff estimates and projections (2008)

Figure 19. Key export commodities (mil. US\$)

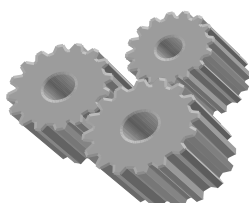


Source: Lao authorities and partner countries data.
Latest staff estimates and projections (2008)

Figure 20. Key import commodities (% of total)



Source: Lao authorities and partner countries data.
Latest staff estimates and projections (2008)



2.5 Private Sector Development

The Lao PDR Constitution of 1991 protects state, collective and private forms of ownership. During the 1990s an active legislative program laid the foundations for developing market based rules and institutions to support private sector development. Today, agricultural production and most manufacturing production is in private hands and SOEs only cover around one percent of employment. Nearly 97 percent of manufacturing units are small (less than 10 employees). Of the medium and large units, 35 percent are privately owned by Lao PDR citizens and 55 percent are joint ventures with foreigners. The remainder is owned by government. Foreign investment in-flows have increased rapidly, in both resource and non-resource sectors (mainly hydropower, mining, agriculture, processing industries and tourism). Between FY 2002/03 to 2004/05, approved investments increased from around US\$470m to US\$2,700m and actual investments increased from US\$70m to about US\$500m. The main foreign investors are from Thailand, China, Australia, Malaysia, Singapore, Vietnam (ASEAN), South Korea, Taiwan, France, the Netherlands and the United States. The National Social and Economic Development Plan recognizes the need to improve the business environment and promote domestic and foreign private investments to foster growth, reduce poverty and achieve the Millennium Development Goals.

A Combined Investment Law is being developed to improve investment attractiveness. MPI is in the final stage of preparing a new Combined Investment Promotion Law to continue improving the operating environment for both domestic and foreign investment. The new law is expected to harmonize investment incentives for domestic and foreign investment and simplify procedures for domestic investors. Some important aspects of the law are still under intensive discussion; namely, entry procedures for foreign investors; the role of an Investment Promotion Agency in monitoring and management of investment activities; and some elements of the proposed investment incentive regime, especially those related to indirect tax concessions

A new Mining Law is being developed to improve the regulatory environment, for consideration by the NA in the second half of 2008. Key issues under consideration include: the policy on Government equity participation; the introduction of a competitive fiscal regime (royalty rate, land use fee, income tax and others); and the guaranteed right to progress automatically from exploration to mining after receiving environmental clearance from the Government.



A new enterprise registration system has been launched by the Enterprise Registration Office (ERO) with the objective to introduce a simplified business registration system by moving away from the previous 'ex ante' licensing process to an 'ex post' monitoring process for firms in most business sectors outside the "Negative List". MOIC issued Notification on simplified enterprise registration procedures, including standard application forms and company by-laws as part of the implementation of the Enterprise Law No. 1238, dated July 28, 2008. Actual implementation of the new registration system began with the launch of the Enterprise Registration Office in Vientiane Capital on August 08, 2008. Key challenges for the new ERO are about how to roll-out the new system to provinces and to assist entrepreneurs in obtaining relevant post-enterprise registration certificates and licenses.

The SME Development Strategy. Following official approval of the first National SME Development Strategy in September 2008, the SME Promotion and Development Office (SMEPDO) is required to coordinate internal and external support to implement the strategy which outlines concrete SME promotion measures clustered under the following key areas:

- Creating enabling regulatory environment;
- Enhancing competitiveness;
- Expanding domestic and international markets;
- Improving access to finance;
- Encouraging and creating favorable conditions for establishment of business membership organizations; and
- Encouraging entrepreneurial culture within the Society.

The Public-Private Dialogue continues. The fourth Business Forum was held on June 26, 2008. Among others, key issues discussed at the Forum include regulation on registration of land title deeds, implementation of secured transaction law, new regulations on wood processing industry, inconsistent tax policy for the private education sector, inconsistent tax treatment for various textile and garment enterprises, poor enforcement of third party insurance, preparation of the implementing decree for the Tourism Law, and preparation

of the Mining Law. The next Forum is scheduled to meet in January 2009. Occasionally, dialogue between provincial authorities and private sector also takes place in some major provinces.

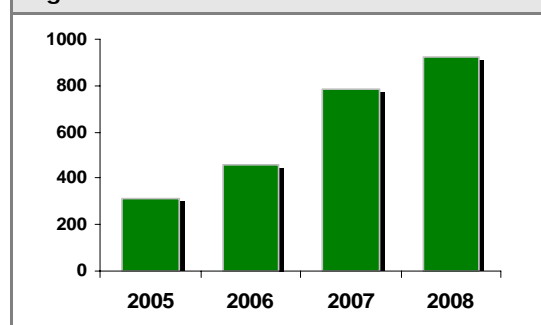


Foreign Direct Investment (FDI)

Notwithstanding the global financial crisis, foreign investments in Lao PDR remained strong in 2008 driven by the resource sector, processing industries and services (see Figure 21-Figure 22). Overall investments are estimated at around US\$900 million in 2008 (compared to nearly US\$800 million 2007) and are expected to decline over the next few years due to worsened global economic outlook (the financial turmoil, sharp decline in demand and prices) and possible delays in some key hydropower projects in pipeline because of financing issues and re-negotiation of power purchase

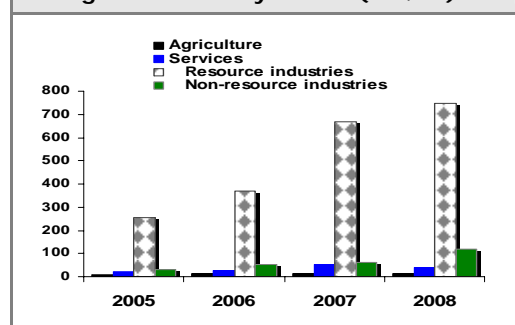
agreements (PPAs) with the Electricity Generation Authority of Thailand. However, big drops in fuel and metal prices led to lower costs for transportation and construction. This, in turn, encourages construction activities including key hydropower projects in pipeline although these may face financing problems. Investments in the mining sector are uncertain due to the recent dramatic fall in metal prices, especially copper. Non-resource sector investments, especially in agro-processing, manufacturing, agricultural plantations and services are expected to grow only moderately in the medium-term.

Figure 21. FDI in Lao PDR



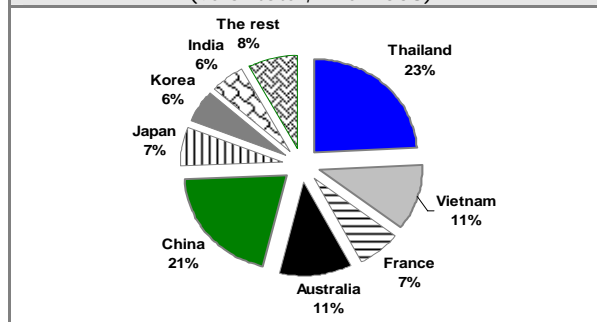
Source: WB staffs preliminary estimates and projections (2008).

Figure 22. FDI by sector (US\$ m)



Most foreign direct investments in Lao PDR still go into the resource sector, particularly hydropower and mining (about 80 percent of total FDI). However, FDI in non-resource sectors has increased noticeably in 2008 compared to the previous year. Major FDI to Lao PDR in recent years comes from the region, mainly, from Thailand, China, Vietnam, Australia, India, Japan, and Korea.

Figure 23. Share of accrual FDI by country
(% of total, mid-2008)



Source: WB staffs preliminary estimates based on GOL's data

3 DONOR ASSISTANCE TO REFORMS

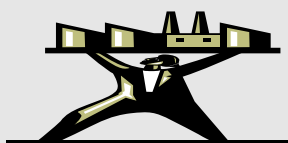
Lao PDR is highly dependent on external support, some of which flows into considerable technical assistance. In FY2006/07, donor funding made up 81 percent of total capital expenditure (public investment programs) while grants accounted for about 11 percent

of total government revenue. This Part examines technical assistance and other donor-funded support to the Government's policy reform agenda. This information has been provided by donors and has been collated by the Monitor.

3.1 KEY DONOR ASSISTANCE TO REFORM AGENDA IN LAO PDR

Public sector governance. Governance attracts significant donor assistance, with more than 20 active projects supported by both multilateral and bilateral donors, including ADB, Australia, EC, France, Japan, New Zealand, Singapore, SNV, Sweden, UNDP, and The World Bank. These projects cover various aspects of public sector governance, including public administration, capacity building for various government agencies and National Assembly, decentralization, public financial management, as well as legal and judicial reform.

In recent years, with donor support, the GoL has made some improvements in public sector governance, including by more clearly articulating its intended reform agenda. In late 2006, Government shared its new Strategic Plan on Governance with development partners. The plan focuses on improving public services, enhancing transparency and public participation in policy-making processes, strengthening the rule of law, and improving public financial management. In the public financial management area, for example, the government has adopted the Public Expenditure Management Strengthening Program (PEMSP) and approved a new budget law that improves revenue collection and strengthens public financial management systems by centralizing customs, tax and treasury administrations and improving fiscal planning and budgeting processes. In other areas, the Public Administration and Civil Service Authority (PACSA) has designed a new national governance and public administration reform program (GPAR-SBSD) and is currently working on an approach to improving domestic civil society. PACSA has also started its initiative on improving civil service performance through a conduct of Pay and Compensation study in order to provide the basis for rationalizing and improving the compensation system. The Ministry of Justice is continuing its work on the development of a legal sector master plan.



Banking Sector and SOEs. Key donors supporting banking sector reform include ADB, IMF, and WB/IFC. Recently the government has taken several important measures to strengthen the legal regulatory framework for banking and micro finance. However, progress on transformation of SOCBs has been slow. In the short to medium term more external support will be needed to further strengthen banking regulation and supervision, continue ongoing efforts to restructure SOCBs, and improve financial infrastructure including establishing a credit information bureau, collateral registries, a payment system and others. SOE reform outside the banking sector has been supported mainly by WB and JBIC. Substantial progress on this front can not be achieved without adopting a clear SOE reform strategy, which also clearly defines role and responsibilities of relevant agencies.

Trade development. The trade development agenda is seen by the GoL as the driver for growth and poverty alleviation, while regional integration and WTO accession are seen as drivers for economic reforms. To move the trade agenda forward, the GoL has recently established a very high level National Committee for Economic Integration led by the Standing Deputy Prime Minister. Several donors have committed to support government's implementation of the DTIS Action Matrix by establishing a multi-donor trust fund – the Trade Development Facility (TDF) administered by WB and officially launched in August 2008. Other donors active in trade related assistance include ADB, Australia, EC, ITC, SECO, UNCTAD, UNDP, US and WB.



Private Sector, Tourism Development and Land Reform.

Key donors active in PSD include ADB, EC, Germany, Japan, ILO, India, SNV, UNIDO, World Bank Group (IFC and World Bank) and others. The government is making progress in simplifying business entry regulations, however to make Lao PDR a better place for doing business, more concerted efforts will be required to further streamline business licensing procedures, improve tax administration (especially for SMEs), improve Contract Law and enforcement, improve competition policy and strengthen commercial dispute resolution.

Land reform. The GoL has been implementing the land reform agenda especially under the Land Titling Project jointly supported by WB, AusAID, and GTZ. The key progress made by government includes: completing land policy studies; developing the first national land policy framework; drafting various decrees and regulations in consultation with concerned government agencies, donors and the public at both central and provincial levels; preparing 337,740 land title certificates in line with the new policy; and increasing distribution of land title certification from 58,051 in 2005 to 320,519 in 2008. The government, through its recently established National Land Management Authority (NLMA), is further expanding the land policy framework into the final three provinces thus achieve national coverage, and aims to attain overall targets of 400,000 land parcels registered and 360,000 titles distributed by June 30, 2009.

Tourism development is another area that received substantial donor support. Key donors include ADB, EC, IFC, Japan, Luxembourg, New Zealand and SNV. Donor assistance is targeted at a wide range of areas including strategy development, physical infrastructure, marketing and branding, eco-tourism, community based tourism, skills upgrading for service providers, and others.



A description of these and other assistance projects is provided in **Annex 2**

ANNEXES

ANNEX 1 - Acronyms and abbreviations _____ 29

ANNEX 2 - Donor assistance projects on Lao PDR reform agenda ____ 30

ANNEX 1 - Acronyms and abbreviations

| | | | |
|--------|--|--------|---|
| ADB | Asian Development Bank | M&E | Monitoring and Evaluation |
| AFTA | ASEAN Free Trade Area | MDGs | Millennium Development Goals |
| ANZ | Australian and New Zealand Banking Group Limited | MFIs | Microfinance Institutions |
| APB | Agriculture Promotion Bank | MIH | Ministry of Industry and Handicrafts |
| ASEAN | Association of Southeast Asian Nations | MOE | Ministry of Education |
| ATM | Automatic Teller Machine | MOF | Ministry of Finance |
| AusAID | Australian Government's Overseas Aid Program | MOIC | Ministry of Industry and Commerce |
| BCEL | Banque Pour Le Commerce Extérieur Lao | MPDF | Mekong Private Sector Development Facility |
| BOL | Bank of Lao PDR | MPI | Ministry of Planning and Investment |
| BPKP | Bolisat Phattana Khet Phoudoi | MPWT | Ministry of Public Works and Transport |
| BPO | Business Promotion Office | NA | National Assembly |
| CBTA | Cross-Border Transport Agreement | NAPPA | National Academy of Politics and Public Admin. |
| CEPT | Common Effective Preferential Tariff | NGPES | National Growth and Poverty Eradication Strategy |
| CIDA | Canadian International Development Agency | NHDR | National Human Development Report |
| COA | Chart of Accounts | NPEP | National Poverty Eradication Program |
| CPI | Committee for Planning and Investment | NPL | Non-Performing Loan |
| CPI | Consumer Price Index | NSC | National Statistical Center |
| CPIA | Country Policy and Institutional Assessment | NSEDP | National Socio-Economic Development Plan |
| DIMEX | Department of Import and Export | NT2 | Nam Theun 2 Project |
| DP | Development Partner | ODA | Official Development Assistance |
| DTIS | Diagnostic Trade and Integration Study | PACSA | Public Administration and Civil Service Authority |
| EAP | East Asia & Pacific | PEMSP | Public Expenditure Manag. Strengthening Program |
| EC | European Commission | PEMSU | Public Expenditure Manag. Strengthening Unit |
| EdL | Electricité du Lao | PFM | Public Financial Management |
| EU | European Commission | PRS | Poverty Reduction Strategy |
| FDI | Foreign Direct Investment | PM | Prime Minister |
| FM | Financial Management | PSD | Private Sector Development |
| FY | Fiscal Year | SAO | State Audit Organization |
| GDP | Gross Domestic Product | SCBs | State Owned Commercial Banks |
| GOL | The Government of Lao PDR | SCP | Singapore Cooperation Programme |
| GSM | Global System for Mobile communications | SDC | Swiss Agency for Development and Cooperation |
| GTZ | German Agency for Technical Cooperation | SECO | State Secretariat for Economic Affairs |
| ICT | Information and Communication Technology | Sida | Swedish International Development Association |
| IDA | International Development Association | SME | Small and Medium Enterprise |
| IF | Integrated Framework | SNV | Netherlands Development Organization |
| IFC | International Finance Corporation | SOE | State-Owned Enterprise |
| ILO | International Labor Organisation | SPS | Sanitary and Phyto-Sanitary |
| IMF | International Monetary Fund | STEa | Science, Technology and Environment Agency |
| I-NGOs | International NGOs | SWAp | Sector Wide Approach |
| ITC | International Trade Commissions | TA | Technical Assistance |
| JBIC | Japan Bank for International Cooperation | TC | Technical Cooperation |
| JFICT | Japan Fund for Information and Comm. Technology | TDF | Trade Development Fund |
| JFPR | Japan Fund for Poverty Reduction | UN | United Nations |
| JICA | Japan International Cooperation Agency | UNCDF | UN Capital Development Fund |
| KOICA | Korea International Cooperation Agency | UNCTAD | UN Conference on Trade and Development |
| LAT | Lao Asia Telecom | UNDP | UN Development Programme |
| LATA | Lao Association of Travel Agents | UNIDO | UN Industrial Development Organization |
| LBF | Lao Business Forum | UNODC | UN Office on Drugs and Crime |
| LDB | Lao Development Bank | VAT | Value Added Tax |
| LDC | Least-Developed Country | WASA | Water and Sanitation Authority |
| LHSE | Lao Holding State Enterprise | WB | World Bank |
| LNCCI | Lao National Chamber of Commerce and Industry | WBI | World Bank Institute |
| LNTA | Lao National Tourism Administration | WTO | World Trade Organization |
| LPI | Logistic Performance Index | | |

ANNEX 2 – DONOR ASSISTANCE PROJECTS ON LAO PDR REFORM AGENDA

1 – PUBLIC SECTOR GOVERNANCE

ADB

- **Improved Public Financial Management Systems** (\$0.85m, 2007-2008). The TA aims to improve the quality of public financial management for higher levels of efficiency, accountability and transparency. The TA will support “Component B: Budget Execution, Accounting and Financial Reporting” of the PEMSP.

Australia/AusAID

- **Asia Regional Trafficking in Persons Project – ARTIP** (A\$21m for Lao PDR, Cambodia, Myanmar, Thailand, Indonesia and Vietnam 2006-2011). Working with the General Police Department of the Ministry of Public Security, the goal of the project is to contribute to the prevention of human trafficking in the ASEAN region. The purpose of the project is to facilitate a more effective and coordinated approach to people trafficking by criminal justice systems of governments in the Asia region.
- **ASEAN-Australia Development Cooperation Program – AADCP** (A\$45m, 2002-2008). The **Regional Partnerships Scheme** component supports the governance sector in areas of taxation, banking, enforcement of intellectual property rights and program and project design.
- **Support to PEMSP Multi-Donor Trust Fund** (A\$2m, 2008-2011). The MDTF will support critical interventions focusing on strengthening the public financial management systems and capacity at central and provincial levels.
- **Poverty Reduction Support Operations - PRSO** (See project description under the World Bank section).

Canada

- **Canada Southeast Asia Regional HIV/AIDS Program (CSEARHAP)** (CDN\$7.3m for Cambodia, Lao PDR, Thailand and Vietnam, 2003-2008). CSEARHAP enhances the national response to reduce vulnerability of migrant and mobile populations to HIV/AIDS. The project aims to strengthen national capacities to develop interdepartmental work plans to address the issues in a regionally-coordinated, gender-sensitive and collaborative manner.
- **Canada Asia Regional Emerging Infectious Disease Project (CAREID)** (CDN\$15m for Indonesia, Cambodia, Lao PDR, Malaysia, Philippines, Thailand, Timor-Leste and Vietnam, 2005-2011). The project in Southeast Asia and China interlinks components related to public health security on emerging infectious diseases and establishes regional collaboration while strengthening capacity of national public health systems in the region to prevent, detect and respond to emerging threats.
- **Asia Regional Cooperation in Human Development (SEARCH)** (CDN\$9.25m for Indonesia, Cambodia, Lao PDR, Philippines, Thailand, Timor-Leste and Vietnam, 2004-2010). The project develops capacity of selected non-governmental and governmental institutions in the implementation of the Rule of Law and in influencing policy makers on related issues.
- **Support to the Implementation of the Convention on the Elimination of the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW)** (CDN\$10.5m for Thailand, Timor-Leste, Vietnam, Indonesia, Cambodia, Lao PDR and Philippines, 2003-2009). The program aims to realize substantive changes at the level of laws and policy.

European Union (EU)

- **Poverty Reduction Support Operation 3 – PRSO3** (A one-year single tranche operation, Euro 3m, 2008). The main objective is to provide budgetary funds to the Government to support NGPES/NSDP implementation and associated policy reforms. Program coordinated with WB and Japan. Complementary TA (Euro 0.2m) to MOH to strengthen HMIS is starting this year (2008-2009).
- **Support to Public Finance Management Strengthening Programme (PFMSP)** (EUR 3m, 2008-2011). Multi-Donor Trust Fund (with funds from EU, Australia, Switzerland, Sweden managed by the WB) to support Ministry of Finance reforms and capacity enhancement.

France

- **Strengthening the Capacity of the Ministry of Finance** (US\$0.78m and one advisor, 2005-2008). The project aims to improve budgetary mechanisms, capacity to implement a computerized custom instrument (ASYCUDA/Sydonia), strengthen the monitoring and control of budgets as well as training civil servants in every department in the Ministry of Finance, training of trainers and creating an on-going training center within the ministry.
- **Strengthening the capacity of the Mekong River Commission - MRC** (US\$0.975m, 2007–2011). This project provides two advisors on the implementation of the sector based approach programs for the secretariat of the MRC.

Germany (GTZ)

- **Rural Development in Mountainous Areas** (2008-2011; US\$9,1mt), RDMA supports the implementation of NSEDP in 10 districts, in 8 by close cooperation with IFAD. Institutional capacity development at National (MPI), provincial (PDPI) and District level for integrated area-based development planning enables GoL to improve its management function in economic development.
- **MRC regional programme 'Sustainable Development of Watershed Areas in the Lower Mekong Basin'** (US\$25m, 2002-2013). This programme assists the development of watershed management concepts and supports the local working groups of member states as well as the Secretariat of MRC in its technical, organisational and logistical tasks. In addition it helps the cooperation and coordination efforts of the member states and the Secretariat of MRC.
- **Integrated Experts Programme for Lao PDR** (2008: US\$0.36m), CIM supports regional Departments of Planning and Investment and the National Geographic Department (NGD) with the placement of international so-called Integrated Experts who support their organisations mostly with capacity building measures in a complementary approach to the GTZ-RDMA programme.

Japan

- **Project for Capacity Building for Public Investment Program Management** (US\$6m, JICA: Technical Cooperation Project 2004-2011). This project aims to improve overall management of the domestic Public Investment Program (implemented by the Lao PDR budget) in cooperation with the Ministry for Planning and Investment.
- **Local Administration Capacity Building Support to PACSA** (US\$0.6m, JICA: Advisor, 2007-2010). This technical cooperation aims to assist the review of central – local relationships and to ensure structural improvement of local administration.

New Zealand/ NZAID

- **English Language Training for Officials** (US\$2.74m, Ongoing since 1995). ELTO is a long standing project that is providing English language training to mid level officials.
- **New Zealand Development Scholarship** (US\$0.83m, ongoing since 2006). NZDS programme provides support to both public and open candidates on postgraduate study in New Zealand.
- **Mekong Institute** (US\$13.9m, ongoing since 1997) MI provides support on human resource development and economic integration in the Greater Mekong Sub-region (GMS) - themes are: tourism, public sector reform, rural development, project management and Regional Research Development and Methodology.

Singapore

- **Human Resource Capacity Building Programmes** (US\$10.9m, ongoing since 1992). Lao PDR has been an active participant of the Singapore Cooperation Programme (SCP). As of September 2008, more than 5,800 Lao PDR officials have been trained under the SCP in fields such as English language, public administration, IT, trade promotion and hospitality. Singapore has also initiated a series of courses/workshops under the SCP with the aim of assisting the Lao PDR to prepare for the 2009 SEA Games, and expanded our English language training to National Assembly officials and the provinces.
- **The Lao-Singapore Training Centre** (US\$2.5m, 2001-2008) provides in-country courses for more than 3,600 Lao PDR officials in areas such as English language and communication skills, IT, trade and finance, tourism and hospitality, economic and finance, urban development and environment. Train-the-trainers courses were also held for IT managers and teachers.
- **Singapore Cooperation Programme** (Ongoing since 1992). More than 57,000 government officials from 169 developing countries have attended the SCP programmes spanning various fields such as public administration, civil aviation, education, environment, urban development, IT, trade facilitation, health and disaster management, port management and law.

Sweden/Sida

- **Institutional capacity building for National Statistical Centre** – (US\$3.2m, 2005-2008). The project objective is to provide users with reliable and relevant statistical information. Specific outputs to be achieved by NSC are to have: 1) regular statistical production program within its area of responsibility, 2) an efficient organizational structure and working methods to manage its regular statistical production, 3) sufficient professional capacity to produce statistics that meet the defined quality, 4) efficient organization in terms of financial management, and 5) the main coordinator of the National Statistical system.
- **Provincial Radio** – (US\$1.6m, 2005-2009) The project objectives are: 1) enhanced ability of management and staff of Lao PDR National Radio and five provincial radio stations to deliver good quality interactive, public service radio, 2) sustainable training capacity built to ensure continued support in interactive public service radio broadcasting, and 3) improved institutional framework for the media sector through exchange views on the role of the media in society between Lao PDR and Sweden.
- **Faculty of Law** – (US\$4.5m, 2003-2009). The specific objectives are to improve technical capacity and pedagogical knowledge among teachers faculty, to improve capacity in management and administration, and to improve students' motivation.

- **National Agriculture and Forestry Research Institute, NAFRI** - (US\$12m, 2007-2012) The objectives are to develop productive and sustainable upland technologies and land management recommendations for poverty alleviation and to generate socio-economic knowledge relevant for national level policy making; to strengthen NAFRI to fulfill its mandate through capacity development encompassing institutional development; and to improve management, sharing and dissemination of information to researchers and other stakeholders, particularly National Agriculture and Forestry Extension Services (NAFES).
- **Strengthening Environment Management (SEM)** – (US\$8.7m, 2005-2010). The project objective is to strengthen STEA's position to fulfill its mandate to implement laws and regulations, with particular regard to environmental and social impact assessment. The project also focuses on implementation and enforcement at national and provincial level of Environment Impact Assessment and Environmental Education and Awareness raising activities.
- **Forestry Strategy 2020 Implementation Promotion Project, FSIP** – (supported by Sida and JICA for 2006-2011. Sida's contribution: US\$1.2m). This support aims to strengthen MAF's capacity to carry out and coordinate Forestry Strategy 2020 implementation together with its partners (line ministries, donors, investors, provincial and district governments and civil society).

SNV Netherlands Development Organization

SNV supports the UNDP project "Gender Empowerment for Poverty Reduction" to build capacity for stronger policy practice. The has the medium term goal of building pro-poor and gender sensitive advocacy, planning and resource allocation skills within the Lao PDR Government in support of decision making processes, policy formulations and planning forums.

Switzerland (SDC)

- **Lao Poverty Mapping and Socio-Economic Atlas** (US\$ 0.297m, 2006-2008). Supports the Lao National Mekong Committee Secretariat (LNMCS) and the Lao National Statistical Centre (NSC) to produce a new Socio-Economic Atlas and Poverty Maps based on the most recent national socio-economic and environmental data sets.
- **Support the establishment of the UXO National Regulatory Authority (NRA) and support the Operation of the UXO Lao Programme** (US\$3.9m, 2006-2009). Supports the National Regulatory Authority (NRA) to strengthen the coordination and management of the UXO Sector, and supports the National UXO Lao clearance operator to further expand its operations and increase overall organisational efficiency and productivity.

UNDP and co-financing Donors (EU, Finland, Luxembourg, SDC, Sida, and SNV)

- **Governance and Public Administration Reform Programme: Support for Better Service Delivery (GPAR: SBSD)** (US\$10.343m: UNDP - US\$0.99m; UNCDF – US\$0.7m; SDC – US\$3.5; and Luxembourg – US\$4m; Funding shortfall – US\$1.153m). The programme delivers multi-donor funding. The new SBSD programme will strengthen capacity for strategic planning, financing, management and monitoring of governance reform for more effective, accountable and transparent delivery of services.
- **The GPAR: Luang Prabang Pilot Phase II** (Total US\$3.098m: UNDP-US\$ 0.59m; Sida-US\$2.5m, 2005-2009). The purpose is to assist the Luang Prabang authorities in the design and implementation of a rights-based local governance system. It supports the design and implementation of governance and public administration reforms related to the functioning of provincial departments so as to improve delivery of selected basic services for rural households (primarily in the health and education sector) and facilitate entrepreneurship and pro-poor business development.
- **The GPAR: Xieng Khouang Pilot** (Total US\$2.0m: SDC-US\$1.5, UNDP-US\$0.5m and SNV; 2005-2008). The project will pilot governance and public administration reforms with emphasis on more effective and participatory services in the agricultural sector and strengthen financial management and accountability. The project will facilitate institutional change to create an enabling environment especially for farmers and local entrepreneurs, notably by enhancing people's greater involvement and ownership.
- **The GPAR Saravane project - Saravane Governance, Public Administration Reform and Decentralised Service Delivery Project.** (Total US\$2.8 million; UNCDF US\$1.9, UNDP US\$0.2, EU US\$0.6, 2005-2009) This project supports six main areas: (i) inclusive and pro-poor planning and budgeting at local levels; (ii) effective and transparent implementation of local infrastructure and service delivery; (iii) financing and financial management of local public service delivery functions; (iv) organizational strengthening at provincial, district and sub-district levels; (v) human resource management and capacity development; and (vi) informing national policy-making on the basis of project experience in Saravane Province.
- **The GPAR Sekong Project** (Total US\$1.7m, 2007-2010; UNDP 0.7m, other sources: US\$1m) – is to improve people's access to public services in the largely multi-ethnic province of Sekong. Through the introduction of District Development Funds (DDF), aims in particular at developing strong decentralized governance systems at district, cluster and village levels.
- **Strengthening International Legal Instruments in Lao PDR, Phase II** (US\$1.26m: Finland–US\$0.65m, EU–US\$0.39m and UNDP – US\$0.08m, 2005-2008). The project aims to strengthen the capacity of the Department of Treaties and Legal Affairs in the Ministry of Foreign Affairs in particular to enhance dissemination, enforcement and reporting mechanisms relating to international obligations of Lao PDR.

- **Enhancing Government Partnership with Social Organizations for Poverty reduction** (US\$1.1m: UNDP). - The project aims to contribute to greater people's participation in public policy, local development and nation building through the project goal of enhanced government partnership with social organizations to deliver services in the public interest towards poverty reduction.
- **Enriching the Round Table Process for Increased Aid Effectiveness and Development Results** (US\$ 2.5 m; ADB US\$ 0.5 m, Luxembourg US\$ 0.5 m, US\$ 1.5 – UNDP). The project aims to help the GOL to exercise a more effective leadership role in coordinating aid at macro, sectoral and cross-sectoral levels, and for aid to be: more transparent and predictable; aligned with and integrated into national planning and budgeting frameworks; and to contribute more effectively to achieving development results.
- **Enhancing Access to Justice** (US\$1.8m; 2008–2010) The LBA phase II project 'Enhancing Access to Justice through the Lao PDR Bar Association' builds on achievements of the previous project. It focuses on three main areas, namely institutional capacity building, education and legal aid.
- **Support for Implementation of the Sixth Five-Year Plan** (US\$2.4m: UNDP – US\$0.8m, 2006-2010) – The project aims to assist the GOL in the implementation of the Sixth Socioeconomic Development Plan (2006-2010) including the constituent poverty reduction strategy and the MDGs; and in monitoring and evaluating the results.
- **Gender Empowerment for Poverty Reduction (GEPR)** (US\$1.7m, 2006-2009)- The project aims to 1) build gender equality advocacy and planning and resource allocation skills within Lao Women's Union (GRID), National Commission for the Advancement of Women (NCAW), MPI and the National Assembly 2) enhance capacity for gender mainstreaming in decision-making processes, policy formulations, planning and data-based gendered policy analysis for use by Government decision-makers 3) ensure long term sustainability and capacity of NCAW, and GRID, and 4) build partnerships for gender equality mainstreaming.
- **Strengthening capacity for National Human Development Reporting [NHDR]:** (UNDP- US\$0.778m; 2004-2009). The project aims to: 1) support capacity development of the national system of statistics to collect and analyze socioeconomic data, 2) produce the fourth NHDR on Employment and Livelihoods in Lao PDR from a human development lens, providing policy recommendations for the 7th Five Year Plan 3) set up an advocacy and dissemination strategy based on the principle of national ownership.

The World Bank (WB)

- **Support to PEMSP and Budget Law Implementation** (through the Financial Management Capacity Building Project, US\$11 million, 2002-2011). The project supports three main areas of reform: financial and banking sector, SOE, and public financial management capacity building. The project assists the GOL in implementing the new Budget Law, specifically on: (i) developing a new revenue sharing framework; (ii) implementation of the revised Chart of Accounts and Budget Nomenclature; (iii) support to Treasury Centralization and (iv) strengthening External Audit capacity.
- **Poverty Reduction Support Operations (PRSO)** - The second programmatic series for 2008-2011 (PRSO4, 5, 6, and 7) with yearly financing from the WB of about \$10 million and another \$10 million roughly from potential co-financiers, such as EU, Japan, and Australia -- about US\$20 million for the total operation. The main objectives of this programmatic operation are to support NGPES/NSERP implementation and provide additional contributions to the government budget and to policy reforms in public financial management, banking and financial sector, SOE reform, health, education, and revenue management.

2 – REFORMS OF STATE OWNED ENTERPRISES AND FINANCIAL SECTOR

ADB

- **Rural Finance Sector Development Program** (US\$7.7m, 2006-2009). The Program Loan will support: (i) creating an enabling policy framework for public and private provision of rural and microfinance; (ii) creating a sound prudential regulatory and supervisory environment for public and private rural and microfinance institutions; (iii) transforming the Agriculture Promotion Bank (APB) into a financially self-sustainable, market-oriented rural finance institution; (iv) creating a supportive non-prudential regulatory environment for rural and microfinance.
- **Rural Finance Sector Development Program** (US\$2.3m, 2006-2009). The Project Loan will support: (i) building the Bank of Lao PDR's (BOL) supervision capacity of microfinance institutions (MFIs), (ii) supporting APB to complete the risk management, accounting, and MIS components of its Restructuring Plan, and (iii) upgrading the ICT system of the Agriculture Promotion Bank (APB).
- **Institutional Strengthening for Rural Finance** (US\$0.7m, 2007-2009). The TA will assist the GOL to (i) coordinate and integrate rural and microfinance policy reforms and program implementation, (ii) carry through the policy lending phase out plan and performance-based recapitalization of APB to ensure its full transition to a commercially-oriented operations within three years; and (iii) formulate and document a simplified mechanism, policies and procedures for residual on-budget policy lending; and (iv) assist APB to build capacity in its human resources management.
- **Upgrading of ICT and MIS at the Agriculture Promotion Bank** (US\$0.472m; 2007-2009). The TA will assist APB (i) plan and execute the bidding, selection, and contracting processes to procure IT hard and software systems and communication infrastructure financed under the Project Loan; (ii) strengthen APB's ICT human resources to manage the ICT systems upgrade; and (iii) plan and implement the rollout of ICT systems to the whole APB branch network.

- **Catalyzing Microfinance for the Poor** (US\$1.980m; 2007-2010). The JFPR TA will assist the development of a network of microfinance institutions (MFIs) in Lao PDR. Particularly, the TA will (i) create a Microfinance Fund (MFF) to provide matching grant funds for MFIs that focus on best practices, sustainability, and poverty reduction that are unlikely to be achieved without the support of the MFF; (ii) assist the Bank of Lao PDR strengthen its capacity in prudential monitoring and supervision of microfinance activities; and (iii) disseminate microfinance best practices through workshops and training activities for MFI practitioners and Government officials.

Germany (GTZ, DED, KfW)

- **AFP - Improved access to finance for the poor households and micro and small enterprises in rural areas** (2009-2011; US\$7.7m). AFP will be implemented in 2 components, one is capacity development for microfinance services in a systemic approach at national (BoL9), provincial (VB10 associations in Luang Namtha, Sayaboury, Attapeu) and village (VB) level by GTZ11 and DED12 and a grant to GoL by KfW13 for refinancing.

International Monetary Fund (IMF)

- Annual surveillance reviews (Article IV consultations) and semi-annual macroeconomic assessments (Assessment Letters).
- Technical assistance in fiscal management (especially customs operations), central banking and statistics.
- Training. Short-term courses for government officials on economic and financial issues in IMF Institute (Washington, DC) and regional training institutes (Singapore, Vienna), and scholarships in Australia and Japan.

Japan

- **Poverty Reduction Support Operation 3** –(See project description in section 1- World Bank PRSO)
- **Fiscal Policy and Financial Statistics Support** (US\$0.8m, JICA: 2005-2009). This technical cooperation provides an advisor to Fiscal Policy Department, Ministry of Finance, and a series of counter-part training in Japan in order to improve financial statistics and fiscal policy management of GOL.

Luxembourg

- **Banking and Finance Training** (EUR 2m, 2008–2010). The project aims at enhancing the overall efficiency of the banking sector in the Lao PDR in line with goals set out in the NSEDP. The Lao Banking Institute's physical, managerial and academic capabilities will be strengthened. A modular banking diploma and certification system will be developed to cater for the ambitions and abilities of all banking staff.

Sweden/Sida

- **Strengthening Fiscal Management** (US\$3.20m, 2004-2008). The overall objective is to contribute to poverty alleviation by strengthening Lao PDR's ability to improve revenue collection. The project includes: tax policy and tax administration, human resource development, organization and management and ICT development.

The World Bank Group-WBG (WB, IFC-MPDF)

- **Poverty Reduction Support Operations - PRSO** (See project description in section 1- World Bank PRSO)
- **Financial Management Capacity Building Program – FMCBP** (See project description in section 1– World Bank)
- **Financial Accountability** (IDF grant \$0.30m). This grant aims at improving Financial Accountability in SOEs and Private Enterprises. The project focuses on capacity building and introduction of international accounting and auditing standards and related training. The project also supports strengthening of LICPA and improvement of legal framework for accounting and auditing practices.
- **IFC-MPDF: Financial Sector Development**: (US\$0.5m, 2008-2009). IFC-MPDF's Access to Finance Program aims to (i) build strong and diversified financial markets with a range of financial institutions and (ii) construct the regulatory infrastructure necessary to ensure financial institutions are successful. Under this program, IFC-MPDF continues to assist Government of Laos in (a) drafting implementing regulations for the new Law on Commercial Banks, and (b) drafting the implementing decree for the law on secured transactions and establishing the secured transactions registry system.

9 Bank of Laos
10 Village Banks
11 German Technical Cooperation
12 German Development Service
13 German Financial Cooperation

3 – TRADE REFORM

ADB

- **Regional TA on Implementing the GMS Agreement on Facilitation of Cross-Border Transport of Goods and People** (US\$1.8m, 2006-2008): the RETA aims to assist in finalizing agreement on and implementing the GMS Cross-Border Transport Agreement (CBTA) and its annexes and protocols. The TA's particular emphasis will be on supporting the GMS countries to effectively implement the CBTA.
- **Regional TA on Support to Trade Facilitation and Capacity Building in GMS** (US\$1.5m, 2006-2008). The RETA will primarily provide initial support for the implementation of the strategic framework for action on trade facilitation, such as capacity building for the trade facilitation focal points and the core team at the national level. The project will also provide continuous and practical support to the GMS Trade Facilitation Working Group in the exercise of its functions and responsibilities.

Australia/AusAID

- **Support for the Role of Integrated Framework Facilitator** (A\$1.1 million, 2008-2011). Australia funded an expert to support GOL in implementing the DTIS Action Matrix and continues to work with the GOL's IF Secretariat and Focal Point and other key donors (World Bank, EU, UNDP and others) under the Enhanced IF framework.
- **Trade Development Facility (A\$3.05, 2008-2011)**. This is a multi-donor trust fund designed to support the implementation of GOL's trade-related reform activities under the DTIS AM. The TDF is managed by WB and co-financed by EU and Australia.
- **Sanitary and Phyto-Sanitary Capacity Building Project - SPS CBP** (A\$3.9m, 2004-2008). The goal of the project is to enhance the capacity of the ASEAN focal countries to meet international SPS standards and the requirements of importing countries consistent with the WTO SPS Agreement. The three components focus on SPS-Trade linkages, Plant Health and Animal Health.

Canada

- **Asia-Pacific Economic Cooperation (APEC) Economic Integration Project (EIP)** (CDN\$9.95m for Indonesia, Philippines, Thailand, Vietnam, Cambodia and Lao PDR, 2003-2010). The purpose of the program is to assist 6 countries in Southeast Asia to comply with WTO obligations and/or WTO accession requirements and to strengthen their capacity to take advantage of their WTO rights.

European Union (EU)

- **The ASEAN-EU Programme of Regional Integration Support II (APRIS II)** aims to further the process of ASEAN integration (Euro 7.8m, 2007-2009). It is mostly directed towards ASEAN Member States and ASEAN collegial bodies responsible for dealing with economic integration issues relating to conformance and standards, customs administration, investment, and legal issues surrounding compliance to various ASEAN agreements. About 80% of the resource is going to the standards & conformance, and customs & trade facilitation areas.
- **Open Resource on Conservation Agriculture for Trade and Development (ORCATAD)** (Euro 0.3m, 2007-2009). The action aims to further the integration of Lao PDR in to the global information society by enhancing the export capabilities of Lao PDR in eco-friendly cash crops by promoting best practices in conservation agriculture aided by modern ICT. The action aims to also reinforce institutional capabilities of intermediary business organisations such as LNCCI by focussing on the niche market and new business opportunities for eco-friendly agriculture related products in the international markets.
- **Trade Development Facility** (Euro 4.2m, 2007-2010) – Multi-donor trust fund (with funds from EU and Australia, managed by the World Bank) to support the implementation of the DTIS Action Matrix (AM) through technical assistance. The facility will be executed by the Ministry of Industry and Commerce under supervision of Lao IF Secretariat. In addition, EC has financed in 2008 two complementary studies to prepare this facility: i) Import-export procedure review and ii) Capacity assessment for the implementation of DTIS AM.

France

- **TrainForTrade**: Training and Capacity Building in the field of International Trade, FSP 2002-95 (US\$2.3m for Lao PDR and Cambodia, 2003-2008). The main project activities include: (1) training of trainers (ToT), (2) use of distance learning, and (3) cooperation between universities of LDCs. Operational changes will be undertaken in the economic sectors identified by decision-makers and authorities of the countries involved. The project is implemented by **UNCTAD** together with Ministry of Commerce.

Germany

- Capacity building for Lao-WTO membership (US\$0.36m, 2006-2008), Training of Lao officials by INWent through seminars and workshops in Laos and Germany. Elaboration of a study regarding the effects of a WTO accession for the agricultural sector in Laos.

Japan

- **Investment Promotion Support to MPI** (US\$0.3m, JICA: Advisor, 2007-2008). This technical assistance aims to promote smooth investment and provide proper advice on the problems of investment situation in Lao PDR.
- **Second Mekong International Bridge Construction Project** (US\$34m, JBIC: 2000-2008). The bridge construction of this project started in January 2007. Supplementary construction works including Common Control Area (CCA), the facility which enables single-stop inspection by Thai and Lao PDR officials, are currently on-going. The similar construction is also supposed to take place on the Thai side of the river.

New Zealand/ NZAID

- **The Trade and Development** (US\$3.4, ongoing since 2000/01) provides support to GMS countries through phytosanitary capacity building, food safety/quality, metrology capacity building and development of the SME sector in the Mekong region through Mekong Private Sector Development Facility (MPDF).

Singapore

- **Trade related courses** (US\$1.8m, ongoing since 1992). During the period, trade/economic courses were conducted at the Lao-Singapore Training Centre in the fields of business communication, international trade finance, consumer protection and export competitiveness strategies. Lao PDR officials also attended other trade related courses conducted in Singapore, including courses in trade and investment promotion, trade negotiation, national payment and settlement systems, and Central Bank accounting.

Switzerland (SECO)

- **Support to Trade Promotion and Export Development** (US\$1.704m, 2004-2008, implemented by ITC). The project is to build up export development capacities of Government, trade support institutions and enterprises by developing (1) export strategies, (2) a trade support network, (3) institutions to train export enterprises, (4) trade information capacity at the national level. The focus in 2008 will be on organic agricultural products, community based tourism and training of counsellors.
- **Lao PDR WTO Accession Support** (US\$ 0.34m, 2007-2010). The project aims to facilitate timely accession to the WTO through the provision of international level policy advice and negotiating strategy, and through ensuring timely and sequenced internal policy reform coordination, in line with Lao PDR's development policy and Preferential Trade Agreements.

UNDP

- **Enabling more effective Integration of Lao PDR into the ASEAN** Phase II (UNDP – US\$0.57m, 2006-2009). The project aims to (i) increase national commitment to the process of ASEAN integration (ii) improve capacity to coordinate ASEAN affairs within the Government of Lao PDR and (iii) enhance national capacity to assess policy implications of regional integration.
- **Capacity Building and Technical support to Lao PDR in the WTO accession negotiation** (IF Window II funds - US\$0.3m, 2007-2009). The objective of the project is to: (i) Improve capacity of the GOL to prepare and negotiate a pro-poor and pro-growth WTO accession agreement (ii) improve capacity of the GOL to negotiate market access in the goods and services sectors and (iii) ensure WTO accession negotiations are widely disseminated at central and provincial level.
- **Institutional strengthening of the IF coordination and implementation structures** (IF Window II funds - US\$0.22million, 2007-2008). The key objectives of the project are to enhance (i) institutional capacity to coordinate and implement trade related policies and projects within the GOL (ii) coordination management capacity with relevant line ministries involved in the IF process and (iii) national capacity to assess the policy implication of trade on growth, economic development, and poverty alleviation.
- **Capacity Building for MOIC'S Department of Import and Export (DIMEX) in Rules of Origins (ROO), Product Specific Rules (PSR) and Operational Certification Procedures (OCP)** (IF Window II funds - US\$0.15m, 2007-2009). The project focuses on building capacity of DIMEX and on strengthening technical capacity on export procedures, specifically on ROO, PSR and OCP.
- **Support the shift of the Garment Industry from contract manufacturing to direct export (Phase 1)** (IF Window II funds - US\$0.32m, 2007-2008). The project aims to support the Lao Garment Industry to address the challenges that the garment sector is facing in the market and to operate smoothly its shift from contract manufacturing to direct export.

The World Bank (WB)

- **Trade Development Facility (TDF) to support DTIS Action Matrix (AM)**. This is a multi-donor trust fund designed to support the implementation of GOL's medium-term trade-related reform activities under the DTIS AM. The TDF is managed by WB and co-financed by EC and Australia. Other donors are also expected to join. This trust fund has been established and the first year action plan has been approved by the Project Steering Committee.
- **Customs and Trade Facilitation Project** (US\$4m, 2007-2011). The project is support Lao PDR customs in facilitating cross-border trade, modernization and streamlining of customs procedures. In particular, through implementation of a computerized customs system (ASYCUDA), long-term technical assistance, change management, and support for WTO accession related to Customs.

4 – PRIVATE SECTOR, TOURISM DEVELOPMENT AND LAND REFORM

PRIVATE SECTOR DEVELOPMENT

ADB

- **Capacity Building for Small and Medium Enterprises Development** (\$0.4m, 2007–2008). The TA aims to support the Government to implement reforms in the private sector – particularly those related to the implementation of a forthcoming ADB loan on Private and SME Sector Development Program. It provides technical training and inputs to government officials of executing and implementing agencies.
- **Private Sector and Small and Medium Enterprises Development Program Cluster (Subprogram 1)** (US\$5m grant, 2007–2008). The project comprises two subprograms covering reforms in institutional development in SME policy formulation and implementation, access to finance, investment climate, trade policy and capacity building, and macroeconomic stability. The TA aims to assist, MOIC, MOF, MPI in implementing and monitoring the impact of key policy reforms, broaden and deepen SME, investments, and trade policy reform agenda; and assist with the capacity strengthening in the EA and IA to produce policy for the sector, as well as to participate in the WTO.

European Union (EU)

- **Legislation and European experience on the subject of ADR procedures: possible replication model in the Cambodia and Lao PDR** (Euro€0.31m 2007–2009). This assistance intends to develop the knowledge and application of the Alternative Disputes Resolution (ADR) procedures in Cambodia and Lao PDR, with particular respect to SMEs, in order to more effectively and rapidly settle international disputes that may arise from business relations through training, seminars and study tours.
- **Small and Medium-sized Enterprise Development Programme** (Euro€3m; 2007–2010). The programme aims to develop national capacity for the implementation of the SME Development Strategy and to support the Government to meet the policy reform requirements under the Private Sector/SME Development Programme provided by the Asian Development Bank (ADB) particularly on regulations concerning business registration and licensing, investment, trade and finance.

Germany (GTZ)

- **Human Resource Development for Market Economy (HRDME)** Program Phase 2 (June 2007 – May 2011: US\$7.1m) supports MPI, MoE, SMEPDO/MoIC and LNCCI to jointly improve the regulatory, institutional and human resource conditions for private sector/SME development through vocational training; SME promotion; streamlining of investment procedures; support to research; and public private dialogues in 4 provinces.
- **CIM – Integrated Experts Programme for Lao PDR** (2008: US\$0.43m), CIM supports SMEPDO, LNCCI, the National University of Laos (Faculty of Forestry) and the Department of Planning and Investment (DPI) Champasak by the placement of international so-called Integrated Experts who support their organisations mostly with capacity building measures in a complementary approach to the GTZ-HRDME programme.

Japan

- **Lao-Japan Human Resource Cooperation Center (LJC)** (US\$10m, JICA: 2000–2010). In cooperation with the National University of Laos (NUOL), this technical cooperation aims to provide a consistent supply of human resources for a market economy. The main courses and activities which LJC provides are (1) business management, (2) Japanese language, (3) information and cultural exchange between Lao PDR and Japan, and (4) basic computer course.
- **Tourism Development in the East-West Corridor Project** (US\$1.5m, JICA: 2008–2010). In cooperation with the Lao National Tourism Administration (LNTA) and Savannakhet Province, this technical cooperation project aims to encourage tourism development through capacity building, in order to contribute sustainability in East-West corridor.
- **ODOP (One District One Product) Pilot Project** (US\$2.6m, JICA: 2008–2011). In cooperation with the Ministry of Industry and Commerce (MoIC), the objectives of the project are to raise awareness and importance of the ODOP concept, to support relevant exciting products as a pilot product, and to create good practice.

SNV - Netherlands Development Organization

- **Private Sector Development Program** SNV aims at improving market access in order to create economic opportunities for the rural poor. The program consists of three service market combinations: 1) access to financial services, 2) value chain development (e.g. eco tourism, non timber forestry products and handicrafts) and 3) enabling environment for business development.
- **Non Timber Forest Products:** Advisory services in the field of non timber forest products (NTFPs) focus on developing best field practices for sustainable NTFP production and use, NTFP market development (including Marketing Information Systems), human resource development and supporting and institutionalizing networking and information exchange.

Switzerland (SDC)

- **Preserving Agro-Biodiversity in the Lao PDR** (Inception phase US\$0.764, 2007-2008). The overall objective of the program is to support the efforts of the Government of the Lao PDR in preserving agro-biodiversity resources while maintaining agriculture productivity and enhancing the livelihood security of farming communities by means of better access and management of agro-biodiversity resources, particularly in the northern upland areas.
- **Lao PDR Extension for Agriculture Project** (Alignment phase US\$0.65m, 2008). The overall objective of the project is to assist Ministry of Agriculture (MAF) and National Agricultural and Forestry Ext. Services (NAFES) in developing a sustainable national agricultural extension strategy and to assist an institutional strengthening of NAFES at all levels. The "Lao extension Approach" has been officially introduced by MAF to all 17 provinces (in 2 districts). In the first six months of 2008, the project will align its support to the new structures introduced by MAF.

Switzerland (SECO)

- **Promotion of Cleaner Industrial Production in Lao PDR** (US\$ 0.72m, 2003-2008). The program aims to support the Government of Lao PDR in poverty eradication and environmental sustainability by improving the productivity and competitiveness of its growing industries, as well as its access to international and local markets, through application of cleaner production techniques and technology.

UNDP –UNIDO

- **Promoting Private Sector Development through Strengthening of Lao Chambers of Commerce and Industry and Business Associations** (US\$2.33m, 2006-2010). The project seeks to support the development of the private sector in Lao PDR, in particular SMEs, by (i) optimising the use of research findings and recommendations in the areas of private sector development (ii) strengthening the capacities of LNCCI and BA's so that they can become independent, self-reliant and self-financing organizations.

UNIDO

- **Lao UNIDO Integrated Program** (US\$5.6m, 2004-2008). The Integrated Program for Lao PDR (phase II) consists of the following key components:
 - Industrial governance and enabling environment (\$0.9m)
 - Private Sector Development and SME promotion (\$0.9m)
 - Manufacturing productivity and environmental soundness (\$2.5m)
 - Market access, investment and trade facilitation (\$1.25m)

The World Bank Group (WB, IFC-MPDF)

- **Poverty Reduction Support Operations - PRSO** (See project description in section 1- World Bank PRSO).
- **IFC-MPDF: Private Sector Development Activities**. (US\$0.5m, 2007-2009). Following on from the support provided to draft the Enterprise Law, IFC-MPDF is continuing its technical assistance to GOL in the areas of enterprise registration and licensing, preparation of a new unified investment law and its implementing regulations, and capacity enhancement in investment generation and facilitation.
- **IFC-MPDF: Lao Business Forum**. (US\$0.6m, 2005-2010). The Lao Business Forum has proven an effective mechanism for enabling the private sector to raise their concerns to GOL. IFC-MPDF assists GOL to facilitate the Lao Business Forum by providing a secretariat to support its operations and provides support to revise the Mining Law and prepare the implementing decree for the Law on Tourism. The fourth Lao Business Forum (LBF) was held on June 26, 2008, and drew nearly 300 participants from business, government, and donor representatives.

TOURISM

ADB

- **GMS: Mekong Tourism Development Project** (US\$10.9m, 2002-2007). The project aims to promote the development of the tourism sector in the lower Mekong River basin. In Lao PDR, It will improve tourism-related infrastructure, support pro-poor community-based tourism activities, facilitating private sector participation in tourism marketing and promotion, establish mechanisms to increase sub-regional cooperation, and facilitate the movement of tourists across borders. The project's phase 1 implementation has completed and the phase 2 is expected to begin by end 2008.

Australia/AusAID

- **Child Wise: Combating child sex tourism in South East Asia** (A\$0.5m, 2007-2009). The aim of this project is to develop a 5 year plan for a sustainable response to child sex tourism in South East Asia. The plan will determine training needs for national tourism organizations and private sector, help position the ASEAN Tourism Committee to assume responsibility for oversight of anti-CST work, and establish a framework for a public-private partnership.

European Union (EU)

- **Asia Invest-Marketing Responsible Tourism in Lao PDR** (Euro€0.3m, 2006-2009). Co-financed with SNV. Aims to enable the Lao Association of Travel Agents and its members to develop and increase the volume and quality of their high yield European sales and to engage more directly and constructively in sustainable tourism policy management and institutional frameworks.

Germany (GTZ – CIM)

- **CIM – Integrated Experts Programme for Lao PDR** (2007 - 2010: US\$0.43m), CIM supports the Lao National Tourism Administration (LNTA) with the placement of an Integrated Expert, who is supporting LNTA to develop a national tourism strategy with a focus on ecofriendly tourism and to establish international relations in the field of tourism.

Luxembourg

- **Strengthening of Human Resources in the Hospitality and Tourism Industry in the Lao PDR** (EUR5.5m, 2008 – 2012). The project aims at strengthening the human resources in the Hospitality and Tourism Industry in the Lao PDR. It will assist the Lao National Tourism Administration to developing and operationalize a long-term HRD Strategy and Action plan to meet the current and future employment needs of the sector.

New Zealand/ NZAID

- **Fighting Poverty at the Plain of Jars Project, Xieng Khouang Province** (US\$1.197, 2006-2011) The project focuses on UXO clearance, pro-poor tourism and sustainable resource management in seven target villages. The Lao National Commission of UNESCO is the main implementing body working in collaboration with Lao National Tourism Authority (LNTA), Ministry of Information and Culture and Provincial Tourism Department, UNESCO and MAG.
- **National Tourism Strategy Implementation Support Programme (NTSISP)** The programme aims to facilitate the work of the LNTA in implementation of the National Tourism Strategy through capacity building for LNTA and Provincial Tourism Departments/Offices as well as developing of the Tourism Development Plan for four pilot provinces.

SNV Netherlands Development Organization

- In the field of pro-poor sustainable tourism, a team of 11 advisors is delivering advice on policy, strategy, management and product development issues to a range of clients. At the national level, these include the Lao National Tourism Administration (LNTA), the National University of Laos (NUOL), and the Lao Association of Travel Agents (LATA). At the provincial level, provincial tourism offices are assisted, as are many other relevant governmental departments (including at district level). The ultimate aim is to promote tourism that benefits livelihood improvements to the poor.

World Bank (IFC-MPDF)

- **IFC-MPDF: Tourism**. (US\$0.4m, 2007-2008). The overall objectives of IFC-MPDF interventions are to (i) generate more tourists, especially higher net-value tourists, (ii) encourage longer stays, (iii) achieve higher average spends, and (iv) enhance higher local spends. IFC-MPDF has provided its technical assistance in this sector which includes preparing the "Stay Another Day" booklet, with a second edition launched in February 2008, and assisting the Lao National Tourism Administration (LNTA) to develop a branding strategy for Lao tourism. IFC-MPDF continues to assist LNTA in drafting the Tourism Marketing Promotion Board Resolution, which will provide a mechanism for an effective public/private partnership for destination marketing and promotion.

LAND

World Bank and Australia

- **The Second Land Titling Project** (US\$23.92m: WB-US\$14.82m, AusAID-US\$8.85m and GOL-US\$2.27m, 2003-2009). The second phase of LTP aims to develop land administration capacity to support the country's economic development and poverty reduction goals. The objectives of the project are to (i) improve the security of land tenure; (ii) develop transparent and efficient land administration institutions at the national and provincial levels; and (iii) improve the government's capacity to provide social and economic services through broader revenue base from property related fees and taxes.

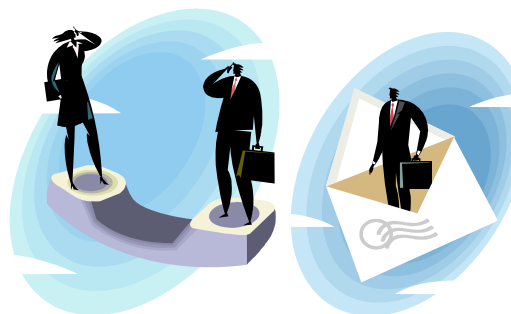
Germany

- **Land Policy Development Project II (LPDP II)** (US\$3.5m, 2008-2011). This project aims to strengthen the policy and legal framework of land management and land tenure in Lao PDR. The overall objective is to increase land tenure security for individuals, groups and public administration. This project represents the German contribution to the Lao PDR Land Titling Phase II (see above).

The information presented in the Lao Economic Monitor covers economic developments that have occurred in Lao PDR in the last six months (between May-October 2008). It is issued twice a year (in Spring and Autumn) in both Lao and English by the World Bank team in Lao PDR. It reports on recent economic performance (Part I), progress in the implementation of the Government's policy reform agenda (Part II), and donor activities in the relevant reform areas (Part III).

This issue of the Monitor was prepared by Somneuk Davading (Task Team Leader) under overall supervision of Ekaterina Vostroknutova (Senior Country Economist), Mathew Verghis (Lead Economist, South East Asia) and Patchamuthu Illangovan (Country Manager). It is based on inputs from Shabih Mohib (Senior Economist), Saysanith Vongviengkham (Public Finance Specialist), Sengxay Phousinghoa (Private Sector Specialist), Thomas Rose (Adviser), Viengsamay Vongkhamsao (WSP Country Team Leader), Thomas Meadley (Consultant), Peter Silarszky (Economist), Jie Tang (Senior Energy Specialist), Sombath Southivong (Senior Infrastructure Specialist), Soudalath Silaphet (Operations Officer), Kheungthong Vongsaya (Research Analyst) and comments from other colleagues.

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FEEDBACK ON THE STRUCTURE AND CONTENT
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THE WORLD BANK OFFICE, VIENTIANE

P.O Box UN 345, Patou Xay Nheru Road
Vientiane, Lao PDR

Tel: (856-21) 450010-11, 414209

Fax: (856-21) 414210

www.worldbank.org/lao



THE WORLD BANK OFFICE

1818 H Street, N.W.

Washington, D.C. 20433

Tel: (202) 472-1653

Fax: (202) 522-1560/1557

www.worldbank.org

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